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***Some Remarks on Racial  
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The Formation of the Tax State  
in Brazil: The genesis of income  
tax***

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TEXTOS PARA DISCUSSÃO

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## Some Remarks on Racial Inequality in Brazil

Not so much because the portuguese despised manual work, as some have emphasized (Sowell 1983), and mainly due to the historical circumstances that Brazil was not colonized as a place to run from hunger or religion persecution, but as part of the mercantile policy of the portuguese kingdom, it is feasible to affirm that, there, the legacy from slavery is, at the same time, socially harsh, economically ruthless, and politically invisible.

Proximity with Africa made easy and cheap the permanent search for new slaves, less costly than to raise slave children. Brazil imported more than six times the number of africans than the United States, although with a substantial minor surviving population (Soweel 1983:99).

At the same time, not coming to Brazil to settle with their families but to explore a tropical environment, the adventurous travelling of the portuguese was made without women and without wives. If it is true that, for political reasons, white population outnumbered black slaves, so it is also true that male whites outnumbered females of the same color (Soeiro 1973). Sexually as well as economically abused, slave women gave birth to a population not quite black, not quite white, but certainly slave and susceptible to beating, ill treatment and hard work.

The fact that slaves in Brazil were allowed by legal procedures to buy their freedom and being that a phenomenon of large proportion during the 19th century (Carneiro da Cunha 1985), associated with the abolishment of slavery in 1889 being reached through agreement across elite and not as a result of any kind of civil war or bloody conflict between their fractions, conspired to make race and race prejudice an inconspicuous issue in the brazilian political agenda.



So much more repressed, so much more perverted. As Barrington Moore has argued (1967), open conflicts, specially when won by the right side, have the merit of airing political realm with the freshness that comes from overt, and thus negotiable, opposing values and interests.

In 1987, out of a populations of 59.2 millions of non-white individuals, only 7.7 millions recognized themselves as black in Brazil. The other 51.5 millions preferred to be denominated as colored, mulattos or **pardos**, a color that in portuguese language means some place between the grey and the brown and that turned out to be its official denomination by the **Brazilian Institute of Geography and Statistics**.

That non-white people preferred to view themselves as not being black would be of no importance at all if only brazilian society would have recognized it s. That have not been the case.

The aim of this paper is not to show that there are social and economic differences between whites and blacks in Brazil, although these differences exist in strong magnitude, so much more upsetting as color is not usually recognized as a significant dimension of social identification and stratification. Until recently its effects couldn't even be measured because the question was not asked by the official bureau of statistics <sup>1</sup>.

This paper highlights some data on racial inequality from another point of view, arguing that there is not a substantial difference between being black and being **pardo**, except, eventually, from a psychological standpoint. Their ways of life overlapping in many important socioeconomic indicators, it can be affirmed that Brazil is a bi-racial society. In it there is a place for whites and there is a place for blacks. There is no place for **pardos** and the place that have been assigned to them is that of black's. In other words, brazilian society does not provide a runaway from what she had defined as racial identity. That will be shown along some few, trivial and standardized socioeconomic indicators: housing facilities, literacy rates and education, family and personal income, participation in labor force. The indicators don't need to be statistically elaborated because the point can be easily made: **pardos** and blacks are both treated equally bad and equally worse than the way whites are treated<sup>2</sup>.

I fully recognize that my case lacks biological foundation: probably very few persons in Brazil have their ascendant being all whites or all blacks. But in this case biology is not at all important and as Pirandello wrote, and as sociologists know well, **if it looks like, so it is**.

### *Housing Indivators*

The ways housing facilities, such as running water, plumbing, electricity or garbage collection are available to the brazilian population present a large variation according to the color of the head of the household. Nevertheless, regarding these facilities, being **pardo** does not make great difference from being black: in some important proportion, their homes are equally precariously attended (Table I).

The fact that water in Brazil, even if provided by government, cannot be drunk without previously been treated, makes the possession of domestic filters an important requirement regarding health care. The proportion of whites possessing filters is 27.7 more than **pardos** possessing it and 24.3 more than blacks possessing them (Table I).

The same way, possession of some durable and private goods, such as stoves or refrigerators, does not show substantial variation across non-white groups but the white one is more well equipped than both the others (Table I).

**Table I**  
Percent of Housing Facilities

Facilities	Color		
	white	pardo	black
Water	74.3	56.6	63.6
Garbage	66.6	42.5	46.1
Electricity	89.7	71.9	78.3
Filter	76.9	49.2	52.6
Stove	98.7	92.1	92.6
Refrigerator	76.9	49.2	52.5

Source: Brazilian Institute of Geography and Statistics.



### Education

Prevailing illiteracy in total population shows important variation in accordance to color. The rate of illiteracy is lower among white persons than among blacks or **pardos**. This is true when considering overall population over five years old. It is also true when considering only children with age between five and nine years old. Differences between whites and non-whites are much more significant than between the two others non-white groups (Table II).

**Table II**  
Illiteracy Rate

Population	Color		
	white	pardo	black
five years and more	18.0	65.0	63.1
from five to nine years	31.4	60.2	54.3

Source: Brazilian Institute of Geography and Statistics.

Regardless of color, Brazilian data show a high rate of enrollment of children in pre-school and first grade. Then, they begin to drop out. Dropping out is a less generalized phenomenon among white than across non-white groups. The number of white youngsters in eighth grade was 59.3% lower than the number of children in first grade. For **pardos** and blacks the numbers were respectively 86.1% and 84.7% lower. The numbers support the assumption that the chances of a black and a **pardo** child to drop out from school are similar and higher than those of a white's one (Table III).

With an overall high rate of school evasion, it is only natural to expect that very few individuals in Brazil get college education. In 1987, out of a population of 8.5 millions whose ages were between 15 and 24 years old, 900 thousands were in college. Among whites, the proportion of people in college was 16.0%; among **pardos**, 4.8%; among blacks, 3.4%.

**Table III**  
Attendance to school

Color	1st. grade	8th. grade	college
White	2.947.711	924.878	1.229.859
Pardo	3.233.030	452.505	219.990
Black	411.664	63.831	39.638

Source: Brazilian Institute of Geography and Statistics.

### Income

According to official criteria, it costs one minimum wage monthly to survive being poor in Brazil. One minimum wage is never more than one hundred dollars but often it is less than fifty dollars.

The modal white family income is located between five and ten minimum wages monthly; for black and **pardo** families, the mode is between one and two minimum wages. While 21.9% of white families have a monthly income of more than ten minimum wages, this is true for only 7.6% of **pardos** families and for only 5.6% of black families. On the opposite, while 20.4% of black families and 19.2% of the **pardo** families are entitled to less than a minimum wage monthly, this is true for no more than 9.2% of the white families. Table IV demonstrates segmentation along racial lines between whites and non-whites. It does not demonstrate segmentation across non-white categories. Table V restates the findings and shows that the same result is produced taking into account, now, individual incomes across the labor market.

**Table IV**  
Average Monthly Family Income  
(in minimum wages)

Income	Color		
	white	pardo	black
up to 1 MW	09.2	19.2	20.4
more than 1-2 MWs	13.7	22.9	22.9
more than 2-3 MWs	12.4	15.2	16.3
more than 3-5 MWs	18.1	17.3	17.6
more than 5-10MWs	22.0	14.8	13.9
more than 10 MWs	21.9	07.6	05.6
without income	01.4	02.1	02.3
TOTAL(1)	100.0	100.0	100.0

Source: Brazilian Institute of Geography and Statistics  
(1) Including those without income or who had not declared it.

**Table V**  
Personal Income From All Occupations

Income	Color		
	white	pardo	black
up to 1/2 MW	07.2	15.3	15.7
from 1/2 - 1 MW	11.4	19.7	23.3
more than 1-2 MWs	21.4	24.8	28.5
more than 2-5 MWs	38.7	22.3	21.9
more than 5-10 MWs	11.5	05.2	04.0
more than 10 MWs	09.3	02.5	01.1
without income	07.6	09.5	05.0
TOTAL(1)	100.0	100.0	100.0

Source: Brazilian Institute of Geography and Statistics.  
(1) Including those without declaration of income.

Differently from when considering sexes, there is not much sense to assume that dissimilitude in income between persons of different colors could be explained by length of their working day. It is a well known fact that in Brazil people works

too much to get a too low income. This is true for all colors (Table VI). Data don't suggest the existence of a reliable pattern of differences in this length that could account for income variation between the three groups of individuals.

**Table VI**  
Proportion of Workers Working 40 Hrs. and More Weekly

Income	Color		
	white	pardo	black
up to 1/2 MW	49.6	57.0	60.6
from 1/2 - 1 MW	76.7	82.8	83.6
more than 1-2 MW	85.8	87.7	90.2
more than 2-5 MW	85.2	89.2	89.8
more than 5-10 MW	88.0	87.8	93.6
more than 10 MW	89.2	87.2	85.3
without income	63.1	45.2	51.1

Source: Brazilian Institute of Geography and Statistics.

### *Labor Force Participation*

When considering labor force, it is important to note what is going on with women's work. Some authors have already noted the expansion of female labor market in Brazil after 1976 (Saffioti 1979), specially concerning married and educated women (Sedlacek and Santos 1991).

Activity rates don't present substantial variation across males of the three color groups. That is not the case across women. The behavior of female blacks is dissimilar, although not in an important magnitude, from the behavior of the two others groups of women. The presence of black women in the labor market is more conspicuous than the white's and the **pardo's** (Table VII).

Being in the labor market is not the same as being actually occupied. Often this presence is an expression not of real work but of a desire of getting a work. The fact is that although



activity rates can differ, occupancy rates are practically the same for both sexes of the three colors (Table VIII).

**Table VII**  
Activity Rates

Sex	Activity Rate Color		
	White	Pardo	Black
Female	38.6	37.5	44.5
Male	76.6	76.6	76.3

Source: Brazilian Institute of Geography and Statistics.

**Table VIII**  
Occupancy Rate - 1987 -

Sex	Occupancy Rate Color		
	White	Pardo	Black
Female	96.2	95.8	95.3
Male	96.8	96.4	95.8

Source: Brazilian Institute of Geography and Statistics.

It also can be observed that, with the exception of services and, in small scale, of commerce, for the most of the other sectors, including public administration, social services and manufacturing industry, the pattern continuous to prevail, that is, in general, blacks and **pardos** have similar chances to work in a given economic sector but these chances are dissimilar from those of the white's. (Table IX).

In Brazil, all workers have the right to have the terms of their work contract written in a notebook. This notebook, issued by the Ministry of Labor, must be signed by the employer and its notations refer to wage, daily hours of work and amount of contribution to social security, which guarantees the right to sick pay, maternity benefits, holidays benefits, access to

pensions, a 13th salary during the year and others benefits from brazilian labor legislation. Possession of this notebook means the individual is a real work and, for this reason, in a country with high under-employment, besides its legal and material importance, it has a very strong symbolical value. So, the proportion of individuals in the labor market that possesses this notebook is the most conspicuous indicator if legal formalities are being followed by brazilian employers when hiring their working force.

Whites have the highest formality rate. Within class of individuals of the same color, women always have the lowest formality rate. To be at the same time woman and black or pardo adds informality to informality: her formality rate is the lowest of all. Finally, from this point of view, it doesn't mean much to be black or to be **pardo**: their formality rates are similiars and that of the white workers is higher than both (Table X).

**Table IX**  
Occupation/Sectors

	Color		
	white	pardo	black
agriculture	20.3	31.4	25.8
manufacturing industry	17.7	12.7	13.8
construction	05.6	07.0	09.2
others industrial activ.	01.3	01.7	01.7
commerce	12.8	10.1	07.8
services	16.1	18.7	24.6
auxillary industry serv.	03.7	01.7	01.3
transp. and communications	04.0	03.4	03.4
social services	09.4	06.2	05.9
public administration	05.1	04.0	04.2
others	03.7	01.8	02.0
Total	100.0	100.1	100.0

Source: Brazilian Institute of Geography and Statistics.

**Table X**

Participation in Formal Labor Sector (1987)  
(% possessing signed labor notebook)

Sex	Color		
	white	pardo	black
Men	67.8	50.5	55.7
Women	58.8	45.5	45.5

Source: Brazilian Institute of Geography and Statistics.

### Conclusions

This paper was not primarily concerned with differences between whites and blacks or **pardos** in Brazil. Its concern was the similitude between black's and **pardo's** socioeconomic status. This sociological proximity was shown in several ways: in their housing facilities, literacy rates, achievement of college education, personal and family income, occupancy rate and formal participation in the labor market.

It is true that for most of the cases, differences between blacks and whites are more important than between **pardos** and whites. But so, statistical similitude between whites and **pardos** is much less important than proximity between these and blacks.

Here, we dealt with very trivial statistics and very few socioeconomic status indicators. If, dealing with others indicators, the same trend is confirmed, it can be said that 50 millions of people are living in a state that oldfashioned sociologists would describe as false consciousness and modern ones as cognitive dissonance. In other words, there is a high chance that a large number of individuals in Brazil view themselves differently from the way society consider who they are. They probably do so because color is an important dimension of classification and segregation. Rational human beings, they know the price society charges from just being black and don't want to pay for it. But so, because anyway, in the last, they get caught, the product of this trapping situation is an astonishing apathy regarding race and race equality.

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Notes

<sup>1</sup>As there was no agreement about the importance of the question, sometimes it was asked, sometimes it was not and only in 1987 it was definitely incorporated to the National Enquiry on Sample of Households.

<sup>2</sup>All data comes from the **Supplement on Color** produced by the Brazilian Institute of Geography and Statistics in 1987. The question on color presented a range of four possible answers - black, **pardo**, white and yellow. The chosen answer came from auto-identification. Tries made before to formulate the question in an open way produced more than one hundred different responses, most of them highly correlated to the **pardo** option to the question, when it was presented in its closed formula. Because they are statistically irrelevant, this paper disregards individuals that have been classified in the amazing color of yellow.

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## The Formation of the Tax State in Brazil The genesis of income tax<sup>1</sup>

For centuries in the West, sometimes with legitimacy, for the most times with violence, kings, barons, and bishops taxed their subjects. As one author put it, "fiscal exploitation is the oldest form of exploitation besides outright slavery" (Goldscheid 1959: 204).

While tax collection may not be unique to modern states, these states most certainly could not survive without their monopoly on fiscal activity. Or, as Schumpeter observes, in relation to his expression tax state, "fiscal demands are the first sign of life of modern state" (Schumpeter 1991: 108). It can be argued that the process by which nation-states are founded and strengthened can be appropriately accompanied by an examination of the dynamics that lead up to fiscal monopoly by a central power and its gradual channeling toward public concerns. Modern life requires that state be capable not only of imposing new taxes and transforming old ones but also of controlling decisions on how they are to be spent. Just as the capitalist enterprise rests on accounting, the transformation of the state into a public political association, socialized through the separation of the bureaucracy and of administrative means, requires a budget and, as part of that, an explicit tax system (Weber 1964: 1061).

The purpose of this paper is to discuss one facet of the foundation of this tax system in Brazil, that is, how the proposal to collect a particular tax penetrated state culture -- in this case a tax on income generated within the society -- and how this tax, rejected by the ruling elite but defended by a number of treasury ministers starting in the first decades after independence (1822), was eventually adopted in 1922 and has been part of Brazil's constitutional life since 1934.



Neither in Brazil nor in other countries did the income tax story play itself out swiftly or incontrovertibly; this is precisely what makes it an interesting topic of political and economic history. In its realm, the equity principle seems to conflict with that of equality, the liberal idea of minimal central power collides with this power's propensity for scrutinizing private affairs, and the impetus to invest be thwarted by public appropriation of private wealth. There thus came moments during which everyone hesitated. In England a tax on income was enacted and suspended nine times until its definitive adoption in 1910. In the U.S., the income tax issue sparked an open clash between Congress and the Supreme Court, the latter declaring it unconstitutional in 1894, after the federal legislature had approved it. In France it was called a taxe à sédition -- a seditious tax. And for almost one century it was rejected in Brazil, first by the Empire's Council of State, then by the 1891 republican Constituent Assembly, and finally by republican congresspersons, although defended by the ministers who oversaw public finances.<sup>2</sup>

There are at least three explanations for the eventual acceptance of this tax. The first has to do with the new role state assumed from the second half of the nineteenth century: to maintain the level of economic activity in balance. Second, as equity gained footing as a value, the state was assigned a large part of the responsibility for the welfare of its citizens, prompting the expansion of its functions, bureaucracy, and expenditures. Third, the ideal of a **balanced budget** came to prevail, and this notion deemed debts incurred to support deficits a threat to a nation's financial and political stability. To some degree, all three considerations entered into the Brazilian debate preceding enactment of the tax. But a powerful fourth element was also present, one that becomes ever more relevant as it becomes more endemic in the guidance of the nation's public affairs: Brazil found itself grappling with successive treasury **deficits** that undermined the political position of treasury ministers, at times even undermining government stability, and likewise pushed to the top of the agenda the question of finance sources and, especially, of new fiscal resources.

The focal point of this three-part paper is the rationale of these ministers and of their interlocutors, especially the imperial Council of State, the 1891 Republican Constituent Assembly, and a number of congress persons.

Part I examines the three moments at which collection of a tax on incomes was contemplated under the Empire: during the Paraguayan War, when the idea was defended by the Viscount of Jequitinhonha; in 1879, at the suggestion of Treasury Minister Afonso Celso; and at the outset of the 1880s, in response to efforts on the part of the Viscount of Paranaguá. Difficulties in managing public finances within the peculiar context of Brazil's founding as a nation (which even saw Brazil paying for its Independence by taking on Portugal's debts to England) and its ultra-centralized government framework formed the backdrop on these occasions. In all instances, the Council of State was the arena for discussion.

This Council was the monarchy's brain. It is thus worth noting the traits shared by members of the elite sitting on this council: their national much more than regional character; their homogenous training in Coimbra and in the political virtues of absolutism; their acceptance of the mercantilist doctrine; and, accordingly, their capacity to abstract themselves from private and market conflicts and make decisions in the name of the Empire (Carvalho 1980 and 1988, Iglésias 1958, Reis 1979, Santos 1978, Schwartzman 1982).

Part II explores the fiscal discussion that transpired in the republican Constituent Assembly, highlighting the role of Treasury Minister Rui Barbosa. Thanks to his presence, classical liberal themes were broached in the proposal to create an income tax: the individual as master of his own person, the relation between equality and equity, and, lastly, federalism. Although Rui Barbosa's position was defeated, when the tax was eventually enacted, in 1922, it followed his inspiration: it was based on individual declarations in which the individual 'governed himself'; it was progressive; and it distinguished income on labor from income on property.

The enactment of an income tax under a 1922 law and its constitutional consolidation in 1934 are the topics of Part III,



which relates how the chief arguments against this type of taxation were finally overturned. The aristocratic apprehension that a direct tax would be intrusive and constitute an intolerable intervention into private affairs was outmoded by the modern state's bureaucratic and impersonal nature. Industrial protectionism and the need to support export activities were the undoing of the liberal myth of the non-interventionist state. The spreading belief that, for reasons of fairness, market-generated inequalities should be corrected underscored the merits of direct taxation over indirect. Lastly, the development of economic theory along marginalist lines showed that taxes were no obstacle to accumulating wealth and made possible the enforcement of progressive rate schedules.

A final section of the paper is devoted to conclusions.

### *I. The Council of State and First Discussions on Income Tax*

Shortly after independence, the nation was administered through executive acts, one of which was a December 30, 1822 decree establishing import duties; another was a January 04, 1823 decree charging the government with collection of export duties. The evident purpose of these decrees was to create mechanisms for financing the state. As the emperor recognized upon opening the proceedings of the first Constituent Assembly, the Treasury was already in dire straits -- and so it was to continue throughout most of the Empire. In describing all of the imperial budgets (from that of August 8, 1826, which was in fact limited to the allocation of revenue and expenditures in the city and province of Rio de Janeiro, through that of 1879), Liberato de Castro Carreira stressed the matter of successive deficits and observed that "the ease with which loans are contracted is the bane of finances and it is thereby that when a financial difficulty arises the procedure is not to resolve it by means of measures of an economic nature, that is, by restricting expenditures or suspending those that may be delayed; rather, the preferred procedure is to settle it by borrowing" (Carreira 1883: 73).

The point made by Senator Castro Carreira is relevant in the light of the balanced budget concept, which began to hold sway in the nineteenth century. It is still meaningful today, because then, as now, new deficits were generally incurred so that old deficits and ensuing liabilities could be settled. On the whole, Brazilian budgetarian policies displayed a clear preference for borrowing from abroad and issuing bonds but only a meager interest in tax collection.

In relation to the idea of levying an income tax, first contemplated in 1843, we must bear in mind that enforcement posed two problems: the first, pragmatic in nature, had to do with the immensity of Brazil's territory, which made collection practically infeasible; the second traced its roots to an exclusionary slave-based economic system that produced only a very few people with actual incomes. Furthermore, as far back as the first days of Independence, in an important speech delivered by the emperor, it was made evident the government felt a certain displeasure in performing the role of tax collector. In the words of Dom Pedro I, Brazil's tax system would respect "the sweat of agriculture, the labors of industry, the dangers of navigation, and the freedom of commerce" (Holanda 1974: 60). Thus, although the Constitution of March 1824 stated that "no one shall be exempt from contributing to the expenses of the State in proportion to his assets", Minister José Clemente Pereira was unsuccessful in his 1843 attempt to enforce this precept, the Chamber of Deputies not approving his proposed law to tax profits for the first time in Brazil (Holanda 1974: 65).

Nevertheless, as part of the Alves Branco fiscal reform, budget law 317 of October 21, 1843 instituted a two-year progressive tax (varying from 2% to 10%) on the earnings of civil servants, but only of this group. The law was revoked even before it could generate proceeds, but following in the heels of the frustrated attempt to tax profits it nevertheless inaugurated an important tendency in the income tax scenario by opting to tax income on labor (probably because it would be simpler to prove and easier to collect). By the same token, it also set a precedent when it foresaw differentiated treatment, for tax



purposes, between labor within the public and private sectors; this approach was to be adopted repeatedly throughout the Empire and at the beginning of the Republic.

Although deficits were already a constant problem, the Paraguayan War undoubtedly deepened concern over public finance trends. In 1866, Treasury Minister João da Silva Carro sent the legislative assembly his budget proposal for 1867-68; following debates, it was resubmitted to the 1867 Council of State, where it was rediscussed, altered, and approved. In brief, the proposal examined by the Council provided for: (1) a tariff reform that reduced tariffs on raw materials and on some capital goods and foodstuffs and hiked those on imports of luxury goods; (2) a tabled tax on homes or housing, whether leased or owned, even when not place of residence, based on annual assumed rental income; (3) a tax on occupational activities, levied via fixed rates or quotas (this tax was progressive and would be called a **personal**, or **quota**, tax; rates would be fixed in accordance with the nature and class of the taxpayer's industry or occupation and the commercial importance of the place where the occupation was practiced, whereas quotas would be based on the presumed value of the building or location where the occupations were carried out); (4) changes in the values of stamp taxes and in their required applications; (5) changes in taxes on slave ownership; (6) standardization of rules for the collection of taxes on transfer of property, inheritance, legacy, or slaves; and (7) a progressive tax on civil servants' earnings.

Council meeting minutes indicate that a line was drawn between two opposing camps. One demonstrated apparent dislike for the measures in question, even while appreciating budget difficulties and the size of the deficit. This group was particularly averse to the so-called personal tax. As the Viscount of Abaete' stated, "Income tax, whatever the ways in which it is disguised, [is] unequitable and malevolent both in its principle and in its consequences [and] when it moves from theory to practice it opens the way for the most revolting injustices [...]. I would prefer some loan to some of the measures proposed" (Senado Federal 1973-78, vol. IV: 277).

Among the most impassioned members of the other camp, eventually to prevail, was the new Treasury Minister, the Viscount of Jequitinhonha, who defended the proposal and especially the personal tax. Although certain other of the Minister's allies, such as the Viscount of Itaboraí, did not find the proposal particularly attractive, circumstances compelled them to go along as well. As the latter Viscount saw it, society would be richer if there were no personal tax, but, on the other hand, what the welfare of society (actually the warfare of society) required at that moment was nevertheless a personal tax. In the name of this same commonweal, the Viscount would have preferred that the tax not be progressive but rather purely proportional, his argument being that progressive taxes constitute "a permanent threat to accumulated wealth" (Senado Federal 1973-1978, vol. IV: 284-5).

To all of this the Treasury Minister replied that the proposed law far from constituted a "financial reform of our taxes"; it merely would serve to cope with an unfavorable economic situation whose seriousness left no room for hesitation. Not that this meant, however, that the Minister did not consider income tax a good idea; the only possible objectionable point would be the issue of collection. But in relation to this potential problem, he remarked that a Brazilian would rather pay a tax than admit to his poverty (Senado Federal 1973-1978, vol. IV: 278).

The reform went into effect and for a short time income was taxed under three different modalities. The personal tax -- the most polemic, because it was progressive among other reasons -- in the end was levied at lower rates than those originally foreseen. The second modality was a tax on civil servants' earnings, which excluded those making the lowest wages. Lastly, a 1.5% tax was charged on the annual benefits distributed by corporations (Holanda 1974: 75). However, no matter how important a step this may have been toward the establishment of an income tax, the fact was that the personal tax (which after a certain income level was no longer progressive but rather wholly proportional) remained in effect only until



1875, while the tax on civil servant earnings was soon abolished. Furthermore, the format of the personal tax was rather peculiar, in that it taxed assets rather than income, the former serving as an indication of the latter.

After a small interregnum following the war, government deficits once again began to mount and the idea of an income tax reappeared, sparking debates in both the Chamber of Deputies as well as the Council of State and, at the initiative of Afonso Celso de Assis Figueiredo, new Treasury Minister, including some of the regime's major figures.

Much as was the case in 1867, the importance of these facts does not issue from their practical effects -- simply because they didn't have any -- but from their contribution to the long run establishment of a moral universe of individual obligations (admittedly, material in nature) to support government. It is only in this sense that an evaluation of the results of an inquiry conducted by Afonso Celso are of interest. On the whole, his informal survey was once again to demonstrate that the system's noblest elite members were unwilling to admit that the privilege of social life bears an onus.

Some of the voices heard by Minister Afonso Celso, such as those of Justiniano Rodrigues, José Mauricio Fernandes Pereira de Barros, Antonio José Henriques, and José Julio Dreys, invoked the difficulties posed by the logistics of income tax collection. They argued that they feared abuses of judgment would occur in levying a tax considered "difficult to establish with any equality, less productive than believed, and vexatious to a population not accustomed to direct collection." They predicted it would be "hard to enforce" and questioned its practical advantages. The other six who were consulted expressed support for the measure. Homero Augusto Ribeiro had the most interesting opinion to share, in fact foreshadowing Rui Barbosa's declaration before the republican Constituent Assembly; in brief, he compared the income tax with indirect taxes, stressing its fairness in relation to the latter as well as its greater suitability to the demands of administrative rationality.

Based on these opinions, the Chamber's Budget Committee proposed changes in legislation that would have the effect

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Because this reform would greatly bleed central coffers, Paragua cautiously defended the income tax as a means of compensating for funds that were to be lost. The incomes to be deemed taxable would certainly be only the highest, nothing like the income tax Rui Barbosa was to defend less than a decade later.

But Paragua also perceived a merit in this taxation: it would act to correct "inequality provoked by taxes on consumption, which form the greatest part of the state's revenue and place the burden, in its generality, on the laboring classes" (Mathias 1973-78, vol. XI: 193). This was why Paragua opposed the suggestions of some of his peers that the tax be charged not on income but on salt or tobacco. To the Viscount, a tax on salt would be a tax on a staple good, and a tax on tobacco would be a tax on merchandise produced by one of the nation's few industries. As to the territorial tax, he judged that given "the present state of agricultural property, whose value has been reduced to less than half owing to the crisis inherent to the transformation of labor, if the lack of a cadastre does not make [this tax] impracticable, it [will still be] inappropriate and inopportune" (Mathias 1973-78, vol. XI: 194).

The Council did not buy Paragua's reasoning. They were moved neither by the deficit dilemma nor by the alleged pressing need to decentralize the imperial administration, nor by the question of the fairness of direct versus indirect taxation. In explicit terms, the conservative voice of council member Paulino José Soares de Souza echoed what appeared to be a generalized sentiment:

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"As to the income tax [...], I have logically to disagree with this thinking, whose manifest impropriety was declared by the

General Assembly in 1879. The current need is to reduce expenditures. The deficit that is liquidating our budgets does not derive from a scarcity of revenue -- revenue which is often times reinforced by raising existing taxes and creating new ones; it derives from an exaggeration in expenditures which are not in proportion to the nation's productive forces and which have accelerated to where they are in a more unfavorable position in relation to national wealth than is the case in other nations, whose production offers greater guarantees of stability. [...] The two sources from which the state obtains the greatest resources for its revenue are import and export. And since there is in our nation almost no industry other than agriculture, it follows that it is this industry that in the end, by the hands of innumerable intermediaries, brings to the Treasury's coffers the money that makes possible public expenditures. The government well knows how precarious the state of our farming is and must have informed Your Imperial Highness that it cannot bear new charges [...]" (Senado Federal 1973-78, vol. XI: 158-9).

Council member Paulino's opinion on income tax was shared by most of the other council members, although their arguments at times differed. He feared that this tax would fall upon large farmers and exporters; other members, like Jerônimo José Teixeira Júnior, feared the burden would be born by wage earners:

"Thus, for example, including wages among taxable earnings does not appear fitting to me in the case of a nation such as Brazil, where the principle requisite demanded for developing the public wealth is the introduction of wage laborers; and the most efficacious means of attracting them is certainly not the expectation of the burden of a tax on the value of their wages" (Senado Federal 1973-78, vol. XI: 168).

In the fiscal scenario, the division of resources among the Federal Government, the provinces, and the municipalities formed the crux of the discussions, not only for public finance reasons but also because underneath it all lie the question of the imperial regime's unitary character. It was therefore not just



income tax that was defeated; what was defeated, although no one actually realized it, was the possibility of decentralizing the regime and thereby breathing into it new life just as it approached its final moments. But no one knew that the regime was on its death bed and that political action -- unexpectedly, as is its nature -- had already triggered the process that would eventually lead to the creation of a republic meant to be federative but which would in the end prove oligarchic.

*II. Rui Barbosa in the 1891 Constituent Assembly: centralism versus federalism in the income tax proposal*

The Constituent Assembly of 1891 likewise refused to accept arguments advanced by the nation's Treasury Minister and did not institute an income tax. But if Rui Barbosa was defeated, the agenda of the debate he proposed was not, and its very issues are still pressing today: how to harmonize federalism with the exercise of a nationally conceived power; how to deal with the liberal ambiguity between the right to property and the recognition of demands for some degree of solidarity between unequal individuals and groups, so that an intended stable order can be made to work; which format is 'fair' for individual contributions, that is, progressive or proportional; how to reconcile two ethics, one of equality and the other of equity.

In a speech entitled "Organization of Republican Finances" delivered on December 16, 1890 to the members of the Constituent Assembly, the Treasury Minister suggested that income taxation, as well as its role within the entire set of budgetary revenues, be examined within the context of a discussion on the intended format of the republican government, particularly the division of public authority between the states and the central government.

If the federalist profile forms the larger background against which we may understand the emergence of a proposal for an income tax within the fiscal debate (Leal 1975), individualism, fairness, equality, and right of property are the terms of interest

when the focus is narrowed to this tax alone and to the engineering of its collection. As Rui Barbosa saw it, the tax would be progressive, exempt the poorest, distinguish earnings on occupations from earnings on capital, and be based on individual declarations where the taxpayer and the taxpayer would be one and the same (Barbosa 1946).

After the Republic had been proclaimed by a military coup, Marshall Deodoro da Fonseca's provisional government set up a committee of jurists entrusted with the task of drafting a constitution to be voted on by the National Constituent Assembly. The committee, Rui Barbosa himself, the draft submitted by the provisional government, and, lastly, the final constitutional text all agreed that taxes on imported goods should be the responsibility solely of the Federal Government (the same would be the case with mail and telegraph taxes). On the other hand, the states alone would be responsible for decreeing taxes on the export of merchandise from within their borders, on rural and urban real estate, on the transfer of territorial property, on services, and on stamp taxes entailing documents issued by their respective governments; the states were barred from taxing federal assets, revenue, or services. However, when the Constituent Assembly ratified Rui Barbosa's idea that "it is lawful that the Federal Government, as well as the states, cumulatively or not, create any other [sources of revenue], so long as not in breach of that which is laid out in [other articles of the Constitution]," an opening was left for future collection of an income tax, although that was not the explicit intention of this article. Legislators were to take advantage of this ambiguity of the Constitution of 1891 many years later, in 1922. The Constitution had not satisfied Rui Barbosa's desires to see an income tax enacted, but it had, however, provided for alternative forms of tax collection by the Federal Government and states, without specifying these and as long as not conflicting with established law, even if that might give rise to double taxation.

The constitutional agreement was not reached without conflicts. Forces led by Julio de Castilhos, member of the



Constituent Assembly for Rio Grande do Sul, contested the government's proposal, arguing that it was centralizing and would impoverish the states and repudiating the Federal Government monopoly on import duties. It is in the dialogue with these forces that the government's stance gains intelligibility. For, as we shall soon see, if part of the members of the Constituent Assembly disagreed with the proposal, not even Rui Barbosa seemed fully satisfied with it, although for opposite reasons. The fruit of this disagreement was a typical result of negotiations: a compromise that did not maximize the desire of any relevant actor but consisted of what was possible under the circumstances (Leal 1975).

Two factors seem to have motivated the Treasury Minister's impassioned opinions about how important it was that the Federal Government retain the bulk of fiscal resources: the first, doctrinaire in nature, had to do with the art of good government, for he judged democracies to display "a natural tendency toward prodigality" (Barbosa 1891a: 212); the second, bureaucratic in nature, was his recognition that the Republic was sinking in the quicksand of disorganized finances, precarious receipts, and growing expenditures. The Minister cited Antonio Justiniano Rodrigues, making the latter's words his own: "We must pay for our mistakes in taxes" (Barbosa 1891a: 209).

In terms of doctrine, Rui Barbosa was a federalist; he held to a judicious federalism, as expressed in the Federalist Papers, used by Madison, Hamilton, and Jay to defend before state assemblies the referendum calling for the founding of the U.S. republic. According to Barbosa, in the U.S. the creation of the Union implied a loss of rights for each of the thirteen states, unlike in Brazil, where the creation of the Republic implied increased autonomy for the old provinces. And Brazil's provinces, which had nothing to give up, set themselves to demanding everything, thus making inviable a political life of truly national inspiration. "Yesterday, we had nothing of a federation. Today, there is no federation enough for us" (Barbosa 1891a: 151). The Minister thus argued that federalism, rather than being the source of constituted authority, was a gain to be appreciated.

But concerning the dynamics of taxation, the Treasury Minister felt Brazil should, at least on this point, follow in the U.S.'s tracks, as he perceived them, "concentrating in the hands of the Federal Government the collection of certain taxes, today carried out by the states, and entrusting to the government of the Union distribution of the product [...]. American opinion therefore, enlightened by the facts, inclines visibly, progressively, toward broadening the economic and political sphere not of the states but of the Federal Government" (Barbosa 1891a: 156).

The Treasury Minister observed that Federal Government expenditures were growing, in good measure due to commitments to the states. At the same time, he observed that the Federal Government was reduced to living almost exclusively off revenue on import duties, and from the point of view of doctrine, this seemed unsound to him. Whereas the tendency should be toward reducing this type of taxation, relying on import duties to support the Republic irrationally forced the establishment of higher and higher rates: "A national budget destined to nourish itself perpetually and solely on import duties would be the most eccentric, the most absurd, and the most harmful of all economic novelties" (Barbosa 1891a: 172-3).

Rui Barbosa and the Deodoro government thus found themselves in a double bind: on the one hand, they were obliged to defend themselves from accusations that they were spending excessive sums of money, this excess spending being seen as the cause of their difficulties; on the other hand, circumstances required them to defend a monopoly on collection of a tax that, as we have seen, Minister Barbosa deemed unsuitable. Raymundo Faoro once observed that on several occasions during the Empire Rui Barbosa, a liberal in economic affairs, censured the protectionist character of the import duty; when he was appointed minister, however, he pragmatically accepted the tax, proposed collection of new ones, and sought centralization in the hands of the Federal Government. Up until then, between Hamilton's criticism of protectionism and the protectionism that the U.S. in fact practiced, Rui Barbosa had agreed



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"While theorists discuss the preferability of indirect versus direct taxes, the practical truth, the irrefutable truth, is that in the current situation of political societies, these two forms of individual contribution to the existence of the state constitute inseparable elements of balance in budgetary organization" (Barbosa 1891a: 211).

Although Barbosa made use of doctrinaire arguments (a fair, democratic, etc. tax), what predominated in his defense were reasons of state. The civilizing character of income tax certainly spoke in favor of its collection, but this was not the most important consideration; after all, other, indirect taxes were also to be levied, including the anti-liberal import duty, even though these went against the principle of equity by placing a greater burden on those less capable and not infrequently taking the form of regressive taxation.

The Minister championed taxes held to be unfair -- the tobacco and alcohol taxes, for instance -- but endeavored to correct this unfairness by levying a fair tax, that is, income tax. He was motivated, however, not by a fair reason but rather by a practical one: "for financial reasons," as he said. But after all, what tax was this? What was understood by 'income'?

Rui Barbosa was explicit: the proposed interpretation was British, that is, the income tax would be levied against gains derived from property, occupations, commerce, and the trades. For the purpose of taxation, any amount above 800 mil-réis earned on real estate, the exercise of an occupation, bonds, interest capital, debts, mortgages, or public employment was to qualify as income.

Three founding elements of liberalism were stressed when Barbosa outlined the virtues of this specific tax. The first of these was that implicit to the tax's functioning was a recognition of the classic possessive individual, sovereign and master of his own self; second, that its collection fostered a meeting of the notions of equality and equity, products of an organic ambiguity of individualism; third, that the question of property rights could be introduced into the sphere of this tax.

The matter of individual sovereignty was to be addressed technically, in the form that collection would take. In synthesis,



and as the Minister had suggested, the logic of collection was not to differ greatly from what occurs today, being a mixture of individual declarations and state monitoring. In newly republican Brazil, however, it seemed necessary to invoke doctrine to justify the adopted procedure, not so much because of a concern with norms and procedures but above all because of doctrine itself, that is to say, because in a nation born of a tradition both centralizing and personalistic, but which endeavored to transmute itself into a republic, the reiterated legitimation of the liberal Holy Trinity -- state, federation, and individual -- seems to be an imposition:

"The tax on income represents, within the fiscal realm, the principle of contributive autonomy, of self-taxation, which constitutes a special manifestation of self-government, bringing together in the citizen the double role of taxpayer and taxer. For this reason, in Prussia, with the Einkommensteuer, as in England, with the Income Tax, the introduction of an income tax bases itself entirely on taxpayer declarations, received and verified by local committees. And the results obtained warrant for economists resounding praises" (Barbosa 1891a: 244).

In short, in a manner quite peculiar to Brazilian political institutions, Rui Barbosa subjected the equality principle to state reason. Contrary to what was at that same time alleged in the U.S. (i.e., the rich were deemed equal in rights to the poor and therefore it was not licit to expect them to pay more in taxes), Rui Barbosa began by conceding that, for one reason or another, the poor and the rich did indeed exist and, given that indirect taxes weighed more heavily on the former, income tax would be a kind of correction meant to offset the inequalities arising from these indirect forms. He stated that it was "[...] equitable that the well-to-do and opulent classes should bear [...] a heightened burden, as naturally befits them, in exchange for the semi-exemption that they enjoy in relation to certain indirect taxes" (Barbosa 1891a: 222). In other words, "where income appears, there shall the tax-collector tax it": the income of the poor is taxed indirectly, through what he spends on his subsistence; the income of the rich is taxed directly and

indirectly. In any case, it was accepted that there would be a limit below which income would be exempt, and those who the Minister called the holders of "small fortunes" and the "working class" would be free of this tax burden. "I shall not hesitate in advising, regarding the tax on income, that small fortunes be exempted, with no fear of breaching the democratic principle that the obligation to heed the State and to support it must fall on the shoulders of all citizens" (Barbosa 1891a: 226).

Finally, a third issue of the liberal discussion was evoked by the suggestion of an income tax: the coexistence of two potentially contradictory principles, that of equal rights derived from the essential between individuals and that of inequality derived from the right to property. Concretely speaking, should earnings on labor be taxed the same as those on capital accumulation? If yes, wouldn't this mean the legislator was disregarding the principle of equity and hampering access to property by those who held none? If no, wouldn't the legislator be compromising the principle of individual equality and burdening those who accumulated wealth thanks to their efforts and labors?

That Rui Barbosa opted for fairness over equality did not keep him from realizing the problem was hard to resolve. "There is another equity principle also linked to the tax on income: earnings derived from personal activity, from steady work, should not pay as great an onus as those that emanate spontaneously from accumulated capital" (Barbosa 1891a: 226). In an effort to clarify his viewpoint, the Minister undertook an exposition of the ideas of Hume, Babbage, Stuart Mill, and McCulloch; to some extent, he endeavored to bring England's nineteenth-century fiscal debate inside the Brazilian political class. Two questions were imported from the English discussion: in the first place, whether taxation should be differentiated according to source of income; second, whether rates should be progressive. The ideas of Stuart Mill and McCulloch were to prove influential.

Although McCulloch eventually agreed that income earned in the exercise of an occupation, that is, income that was not



permanent in character, should not be taxed at the same rate as perpetual income, he did not always think along those lines. There was, for example, a time when he believed all incomes should be reduced to a perpetual amount in accordance with the taxpayer's age. Only later did he adhere to Mill's 'fair' position that those whose earnings were temporary had the right to build up their own capital -- a doctrinaire position that responded to those alleging that temporary earnings should be taxed temporarily and permanent earnings, permanently.

A bit fancifully, since this debate was restricted to a very limited circle of interested parties (not even the government itself had dared to include taxation of income in its draft constitution), the Brazilian Minister observed:

"It fell to Stuart Mill to settle the true social rationale and the fair economic measure of differentiation, the necessity of which is intuitively understood. The tax should be graduated not only according to the taxpayer's pecuniary means but also according to his needs, so that the sacrifice of all will be equal. Not only is the capitalistic value of fleeting, or uncertain, income inferior to that of perpetual, certain income but, furthermore, the usufructuary of the former is subject to a moral obligation, to a personal need, that does not burden the others: the obligation of savings, the obligation of creating a reserve, constantly separating a quota of current income to rebuild equivalent capital when current income disappears" (Barbosa 1891a: 221).

McCulloch, however, who Rui Barbosa went on to quote, was not in absolute agreement that "the tax should be graduated." The truth is he was always reticent about income tax and only **if** this went into effect did he recommend a differentiation as to origin of earnings (but not progressively, as the Treasury Minister's Report at times seems to misleadingly suggest). In his Treatise, for example, McCulloch declared that he agreed with Gladstone and that "the income tax does more than any other tax to demoralize and corrupt people" (McCulloch 1975: 141).

The fact that McCulloch at times admitted the existence of the tax made him no less critical of progressive collection, contrary to what the Minister suggested. Worried about democ-

racies' capacity to breed "unfairness and follies," in his Treatise he was adamant in constantly affirming that redistribution was not the task of government. As O'Brien observed, what seemed morally incorrect to him about progressive rates was that "any attempt by government to redistribute income received under the price system would be subversive of all the incentives of that system -- and it would then interfere with growth" (O'Brien 1975: XXXV).

Where Rui Barbosa did share opinions with McCulloch (and with Mill) was their willingness to exempt lower income brackets -- something that most surely involves a degree of progressiveness. Although it is possible (albeit not certain) that when Rui Barbosa referred to "graduated" collection he was expressing an openness to greater degrees of progressiveness than those advocated by the two Englishmen, what should be stressed is that all respected both the right of those who had no property to constitute their own plus the duty of the state to encourage them through reduced fiscal obligations.

### III. At last, the tax

The work of the Constituent Assembly had hardly come to a finish and the new Constitution been enacted when the income tax issue made another comeback. After all, state finances continued straitened and were made even more unwieldy by Rui Barbosa's economic policy that spurred the stock market boom of the early 1890s, known as the Encilhamento; only under the Campos Salles Administration were government accounts to achieve a balance. It was during the intervening administration of Prudente de Moraes that the Chamber of Deputies put forward the question of the new tax. When the issue returned to debate this time around, it was clothed in Jacobin dress: "**For what reason, I ask, should those who manage money and live off usury escape the tax?**"

This question was posed by Deputy Serzedelo Corrêa. This legislator and Augusto Montenegro had been distinguishing themselves in the defense of the measure since 1894. In 1896,



within the Chamber of Deputies' Budget Committee, they were to re-propose it, intending it to yield returns the following year already. They failed to win over their peers, however, who generally alleged a fear of collection problems. Serzedelo Corrêa was to declare that, despite his having lost this round, the tax was starting to gain greater acceptance: "The committee feels that the tax on income is a corrective measure meant to compensate the inequalities of indirect taxes. It is a surcharge that, rightfully so, should fall on the more well-to-do classes in virtue of the very well-being that they enjoy on a greater scale" (Baleeiro 1938: 27). The fact is, however, that in this turn-of-the-century atmosphere energies were much more concentrated on the debate over the protectionist import duty than on a tax that did not exist and whose logistics of collection were dubious.

Just one year after Serzedelo Corrêa and Augusto Montenegro's frustrated effort, the issue would return for a longer stay, this time winning the approval of the Chamber of Deputies' Budget Committee, although eventually being rejected by the Chamber itself. The committee agreed to a general tax on income, whatever its source. As to the procedure for collection of the taxes by the Treasury, receipts would be classified in two groups: withholding taxes and taxes that the taxpayer would pay "at the mouth of the coffer." All taxpayers were to be charged a fixed, initial quota, designed to provide the Treasury with immediate funds. Once this quota had been paid, and to offset its disadvantages, lower-income earners were to be completely exempt from any taxes on top of it. Above the tax-free level, rates would be progressive. The draft law intended to charge a rate of 2% on real estate earnings, half to be paid by the owner and half by the renter or lessee. Profits on industrial or commercial activities, interest, dividends, pensions, or public funds would be taxed at 2 1/2%. In administrative terms, it was supposed that the taxpayer would file a declaration or else that government employees would calculate tax due. Lastly, lay-outs were authorized for setting up a suitable collection structure (Baleeiro 1938: 29-30).

The debates in Congress revolved around the unconstitutionality of this law, a thesis that eventually prevailed. Serzedelo Corra, the law's proponent one year earlier, argued that the government would spend more collecting this tax than it would actually collect. The fact is that on the first of December the law was voted down.

Some light may be shed on the significance of this episode by two observations made then. The first is found in a declaration made by Deputy Felisberto Freire when he witnessed the draft law voted down, and the second can be found in the Budget Committee's presentation of the law. In the Chamber, Freire spoke out against "the predominance of the capitalist regime in deliberative bodies, for the weight of taxes continued to be placed on the backs of the people or the humble classes, through the consumption tax, in 1898 as in 1824." In the second case, the committee expressed certain misgivings about its own income tax proposal: "The direct tax, employed so admirably in nations of ancient civilization as a device for correcting the clamorous unfairness of indirect taxes, will hardly fit in among us: it repulses the Brazilian character at the same time that it does not harmonize perfectly with the state of life, the education, and, at the same time, the precariousness of private fortunes [in Brazil]" (Baleeiro 1938: 29).

Two ideas still of import today were advanced in relation to the tax. First, it was argued that a meeting of class interests between the political and the economic elites would hinder collection of a tax which, after all, fell chiefly on the richest. The second idea emphasized that direct taxes not only went against the Brazilian character's presumed penchant for unfairness but would also affect the process of accumulating wealth, a serious matter given the national economy's precariousness.

Felisberto Freire was probably right in his accusation that dominant segments constantly favor dominant segments themselves -- a notion that is virtually a truism. As various other thinkers have also perceived, in different contexts, although the politician speaks 'to the people', he works for interests. As Madison himself admitted, "the most common and long-lasting



cause for factions is the unequal and varied distribution of property. Those who own property, and those who do not, have always held distinct interests within society" (Madison, Hamilton, and Jay 1988).

It is most likely true that, at the moment of voting, legislators felt sensitivity to issues affecting the guarantees of favored groups. However, everything seems to indicate that, above and beyond the understandable displeasure it gives the rich to pay taxes on their wealth, there prevailed an admitted concern over the effects that this collection might possibly have on national development. After the coup and in the period just following the republican dictatorship, debates in the Chamber of Deputies reflected apprehensions regarding the Brazilian economy, that is, the need to support export activity and also, albeit secondarily, to encourage industrialization. Within this picture, the income tax was judged an impediment to capital accumulation.

The self-critical comment made in the Budget Committee's presentation of this draft law -- that development depends on private savings, whose capacity to be transformed into investments would be thwarted by a tax on income -- was an idea then shared by a variety of thinkers and politicians. If levied against companies, it would shrink their rate of return. If levied against labor, it would discourage productivity. In either case, the nation would lose. This was in fact what spurred opposition to England's progressive taxation system and a preference for the proportional system, were the tax to be ratified. As Webber and Wildavsky have argued, it was necessary for marginalist theory to be formulated so that the idea of progressive taxation could become acceptable to the dominant mentality:

**"Committed to the principle of equity and equality derived from the French Enlightenment, yet holding to norms of minimal taxation and balanced budgets propounded by individualists (which had become fiscal orthodoxy, during the previous half century), policymakers hesitated to raise tax rates. Yet, when confronted with a growing discrepancy between receipts and expenditures,**

**and given the massive concentration of wealth held by a few individuals, there was a measure of sympathy for the view that the protection the state offered the economy should be paid for by the main beneficiaries.**

**"A new way of thinking about income, derived from neoclassical economic theory formulated after 1870, helped policymakers resolve the dilemma. Marginal theory presumes that, in a free market, an additional increment of anything has high marginal utility to someone who has none, while the utility diminishes in proportion to the amount of it he possesses.**

**"As a universal principle, the diminishing-marginal-utility postulate is applicable to income as well as consumption. Thus, according to neoclassical theory, while an increment of income has high marginal utility to a poor person because he has so little to start with, it has smaller marginal utility to someone wealthier, simply because his income is higher. Ideas about progressive taxation, heretofore propounded only by rabble-rousers, suddenly became respectable, clad in scholarly garb. Taxing large incomes at higher rates than lower incomes was both justifiable and fair"** (Webber and Wildavsky 1986: 323, emphasis added).

Thus, in due time, and in much the same way that the idea of income tax gradually became palatable to the elites, the idea of progressive rates gained impetus. While Brazil's rejected 1896 law had endeavored to distinguish itself from the English version, and therefore affirmed that the proposed tax was proportional, it in some way accepted progressive rates, as attested by the exemption granted lower income levels.

In any case, the comments on the disadvantages of income tax found in the Budget Committee's presentation is the portrait of a political system caught up in its own ambiguities: the intent was economic liberalism and moderate state spending, but the state was placed at the service of export activities and thus charged with maintaining prices on primary goods and attracting European immigrants for farming. It was agreed that the full development of private enterprise would depend on



removing fiscal obstacles, and in the name of this agreement, income tax was rejected. At the same time, tariff protectionism became Brazilian fiscal policy's most important credo.

Until 1922, when legislation providing for its collection was finally voted through the Chamber of Deputies, the nation continued discussing income tax. At certain moments it taxed the earnings of civil servants and after 1911 even included in its budget, under an item entitled "Income Tax," charges against dividends, interest on corporate bonds and debentures and on mortgage loans, and the profits of limited companies, etc. (Baleeiro 1938: 29).

The tax was enacted under the third article of Law no. 4625, of December 31, 1922, and given form in eight items that made it applicable to the net sum of earnings from any source received by individual taxpayers or legal entities, exempting incomes of less than six *mil-réis* and allowing deductions for various reasons, as long as not in excess of 5% of income. The taxpayer would make his own declaration or, in its absence, it would be filed *ex officio*. Over the years, this law was supplemented by others that added schedules for calculating income. The Constitution of 1934 finally included the matter in its text, charging the Federal Government with collection of the tax, in its sixth article.

Between 1922 and 1934 two occurrences perturbed this history. First, entrepreneurs expressed violent opposition to the tax. Second, at the threshold of the Constituent Assembly of 1934, the debate on federalism and on who should collect the tax -- the federal, state, or municipal government -- re-emerged (Leal 1975).

Industrialists' objections to the income tax were first heard in 1919, in response to congressional legislation imposing a 3% tax on the profits and dividends of the manufacturing industry. The most vehement protest came from the Industrial Center of Brazil, which declared this a tax "that, overall, should only be admitted in export nations and not in capital-importing nations like ours. It is a tax that repels capital and that therefore can only be satisfactorily introduced in nations with an excess of capital (Carone 1978: 98).

The inconsistency of the industrialist position was striking on that occasion. From the dawn of the Empire, first the Industry's Aid Society and then, with the advent of the Republic, the Industrial Center of Brazil requested that their activities be granted fiscal privileges as well as privileged financing. This attack on income tax as an inhibitor of private activity was of liberal inspiration, combatting fiscal roadblocks to private actions. In short, the industrialists were liberals when charged taxes and protectionists when it came to levying taxes on their competitors' merchandise.

As to the second order of problems, in a republic that intended to be constitutionally organized as a federation the enactment of an income tax was to fuel the debate on whether it was appropriate to entrust collection to the states or to the Federal Government. Generally speaking, it is agreed that wide-based taxes, such as income or consumption taxes, should be collected by the Federal Government and be part of its budget; narrow-based taxes, such as the territorial tax, are better entrusted to local administrative units. After the 30's Revolution, the draft law that the Provisional Government presented to third National Constituent Assembly split the income tax, transferring one, with a proportional base, to the states and reserving the supplementary progressive income tax for the Federal Government.

Three camps emerged in the discussion: the first, led by Sampaio Correa and Cincinato Braga, favored a Federal Government monopoly on taxation and its allocation; a second, headed by Agamenon Magalhães and João Alberto, defended the viewpoint contained in the draft law itself; and the third, with Prado Kelly at its front, assigned income tax (both the proportional part and the progressive supplement) to the Federal Government, which should, however, share proceeds 50/50 with the states. An amendment presented by Carlos Maximiliano, under which the Federal Government would maintain the *cedular*\*/proportional and progressive tax, excluding real estate income from the former, finally won out. To summarize, the constituent legislator of 1934 obstructed double



taxation of real estate revenue while at the same time he continued to respect the municipalities' traditional responsibility over the taxing of revenue on urban real estate (Baleeiro 1938: 39).

It remains to be added that with the *Estado Novo* coup d'état of November 1937 the Federal Government would appropriate the territorial and urban taxes from the municipalities.

### *Conclusions*

The road to legal acceptance of income tax collection in Brazil was paved with controversies, some still relevant today, others resolved and put behind us. These controversies centered around the following issues: the tax's 'perverted' character, manifested in how it invaded and pried into the private domain; the relative advantages and disadvantages of direct and indirect taxes; income tax's impact on the accumulation of wealth; its effects on equality, an attribute assumed to be shared naturally by all individuals, and on fairness, which, more and more, all citizens were presumed to deserve, given that society made all unequal. The previous pages were devoted to a discussion of these topics, as addressed by the Brazilian elite.

This concern with safeguarding the boundaries of private life and, principally, this displeasure in publicly disclosing information on private wealth -- particularities of the aristocratic ethic and its conception of honor -- were to prevail as an essential argument against institution of the income tax in discussions within the Empire's Council of State. Beyond being irked by the thought of paying a tax, this group of viscounts and counts became indignant at the idea of having their business affairs and their private lives scrutinized and their assets disclosed. With the Proclamation of the Republic, this objection disappeared. More than references to honor or shame, what one then began to hear, especially in Rui Barbosa's discourse, was a defense of income tax in the name of values that were no longer status-oriented but now achievement-oriented. Good taste

demanded that noble wealth remain silenced, whereas bourgeois wealth was a virtue warranting applause.

Peter Berger, Brigitte Berger, and Hansfried Kellner (1974) pertinently showed that the concept of honor, peculiar to the aristocratic world and intrinsically linked to institutional roles, became obsolete in the contemporary world, which for its part spawned the concept of dignity. Dignity is essentially fruit of individual achievement and is available to any and all who make an effort to attain it. Only within this new culture can a tax with characteristics like those of an income tax meet with success. Rui Barbosa, upon the demise of the Imperial order and inauguration of a Republican order, perceived this essentially modern character in that which reaffirmed individual autonomy and its pair, the state.

In Brazil, the defense of income tax generally entailed a comparison with the effects of indirect taxes, deemed unfair because they were egalitarian, that is, because they fell equally on rich and poor. This line of argument was taken up by the Viscount of Paranaguá at an 1893 meeting of the Council of State, called by the emperor. It was also employed by deputies Serzedelo Corra, Augusto Montenegro, and Felisberto Freire within the Chamber of Deputies under the Prudente de Moraes Administration. A like assessment was made by Treasury Minister Rui Barbosa during the proceedings of the 1891 Constituent Assembly, when he asserted that the income tax was civilizing while other taxes were obsolete and not very democratic, especially import duties, which offended his liberal conscience. As Minister, however, while he defended the taxing of income, he was not willing to renounce any of the indirect taxes. To the contrary, he wanted one levied against tobacco and drink, unlike the Viscount of Paranaguá, who had held the same cabinet post at the beginning of the 1880s and who did not feel it advisable to impose charges precisely on branches of nascent industries.

This evaluation of the relative advantages and disadvantages of direct and indirect taxation was not exhausted with the generalized adoption of income tax. In a 1955 book containing



a collection of arguments in favor of consumption taxes, Nicholas Kaldor argues essentially that the defense of income tax never rested on its efficiency but rather on its fairness, that is, on how well it achieved a reasonably equitable distribution of the tax burden. This was most assuredly true in Brazil, above all in 1894 and 1896, as expressed in the voices of Corra, Montenegro, and Freire, but it was only partly true as far as the Viscount of Paranaguá and Rui Barbosa. And it was not the case in 1867, when the tax was proposed and then collected to meet expenses with the Paraguayan War (precisely what the Lincoln Administration's Treasury Secretary Chase had done during the Civil War). The fact was that from Independence through Campos Salles, successive budget deficits were a constant cabinet concern. It was for this reason that the Viscount of Jequitinhonha defended the tax in 1867 and Afonso Celso, in 1879; and this is likewise what made the Viscount of Paranaguá do so once again shortly thereafter. Unsound accounts most probably were not Rui Barbosa's only reason for proposing this tax. Indeed, as Kaldor suggests, Barbosa was motivated by the question of equity; however, the state of government accounts did lead him to defend such taxes as import duties, which he abominated, as well as others he considered inequitable.

While indirect taxes' inequity, rooted in their generalized incidence, was the leitmotif of the income tax proposal, the negative effects this latter tax could have on the accumulation of wealth were decried by its critics, for example, by council members Paulino de Souza and Jerônimo José Teixeira Jnior at the Council's 1893 meeting and later by the Industrial Center of Brazil, in 1922.

The Brazilian antipathy for paying taxes has often been cited: the exporter repudiates export duties; the importer, import duties; the wealthy and entrepreneurs, income tax; landowners, property and inheritances taxes. The only taxes that seem attractive are protectionist taxes or those that, since Independence, have been charged on the earnings of civil servants, a class of workers judged somewhat disreputable ever since its emergence in Brazil.

In Brazil, but not only here, it was so hard to accept that taxes are a consequence of social life because they were seen as hampering economic progress by intervening on the market and discouraging maximizing individuals. This line of argument was employed especially when it came to income tax. But it is worth noting that the same liberalism did not extend to tariffs, where identical voices demonstrated an inclination for protectionist policies.

At the 1893 meeting of the Council of State, Paulino de Souza complained that an income tax would discourage export activities, already unfairly burdened by export duties. Jernimo Teixeira argued that such a tax would be a disincentive to the worker and would have prejudicial effects on production, an especially important consideration since government policy was to promote foreign immigration. For its part, the Industrial Center of Brazil declared that income tax "repels capital" and is a "treacherous tax" that would have the effect of drugging the national economy.

In nineteenth-century Europe there was a growing belief that government should balance the budget. The echoes of this idea reached Brazilian shores and most surely dismayed the nation's political elite, which could only manage to balance its finances by borrowing or by issuing currency. Successive deficits as well as changing expectations regarding the state's role made treasury ministers quickly realize import duties would not suffice in providing adequate fiscal receipts. In Brazil, the balanced-budget idea gained greater ground starting with Joaquim Murinho in the beginning of 20th century; consequently, so did the idea that the state should seek rapid, efficient sources of funds. Income tax apparently managed to justify itself in this way, in that it permitted more efficacious collection both in terms of the relation between increased tax burden and increased revenue and in terms of the possibility of controlling concealment of taxable income or assets.

Income tax would thus serve two purposes: it would provide monies needed for the budget and it would soothe the social conscience concerned with the issue of fairness, progressive rate schedules appeasing it even more.



Progressive taxes in Brazil, always passed over in favor of proportional taxes, were defended explicitly by Rui Barbosa. The progressive notion lay in the spirit of the law that enacted this tax. Progressive taxation was already an old idea then; it had been espoused by William Paley in 1785, echoed in the Declaration of the Rights of Man in 1789, and stipulated by Tom Paine in his *The Rights of Man* in 1791-2. Scientifically legitimized by marginalist theory, it triumphed as a recourse for winning political approval of income tax, which in the end included an exemption for those with very low incomes and deductions for expenses on goods essential to the physical and moral survival of individuals, families, and companies.

It was eventually agreed that fair principles should govern social life, but these principles could nevertheless be endowed with different contents. In the case of income tax, the idea of fairness that ultimately triumphed was one that demands management of prevailing economic and social inequalities so as to favor those with lesser advantages (Rawls 1971). This was its spirit; what income tax may actually have accomplished in the real world is another matter altogether.

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*Notes*

<sup>1</sup> This text is an abridged version of some anterior works of mine, all of them on the question of Brazilian fiscal history. It was written during my stay as a Research Associate of the Department of Economics of The America University in 1992.

<sup>2</sup> Due to the Portugal invasion by the french army during the napoleonic war, the portuguese royal family travelled to Brazil which was thus transformed into the center of the portuguese kingdom. As soon as France was defeated, the king returned to Portugal but his son stayed in Brazil. The Prince eventually proclaimed Brazilian independence, transforming himself into an Emperor, Brazil into an Empire and giving titles of Counts and Vicounts to the ruling class. Apart from some regional insurgencies, and differently from United States and others Latin American nations, Brazilian independence was reached without war or bloody resistance and, since then, political conflicts tends to be resolved through agreement inside elites.