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'ROBIN HOOD IN REVERSE': PERSISTENCE AND BARRIERS TO REDISTRIBUTIVE FISCAL POLICY

Pedro Cavalcante (Ipea)
cavalcante.pedro@gmail.com

"Inequality is the today's slavery, the new cancer that prevents a truly democratic society"
José Murilo de Carvalho[1]

ABSTRACT

The paper's goal is to discuss an institutional explanation for the income inequality's persistence in one of the most unequal country in the world, Brazil. Despite the recent improvements in the poorest living conditions of the population, there has not been significant change in the income disparities. As the hypotheses of the median voter, the growth of left-wing parties and the political competition do not stand in the Brazilian case, what could explain the inequality's tenacity in the country? To answer this, the paper, grounded in the new institutionalism theory, employed process tracing method to depict the mechanism describing the causes that often keep the bad income distribution in the country. Then, it discussed each part of the process based on the literature of electoral rules effects, corporate financing and influence in Brazilian political system and, tested empirically the argument using the case of the redistributive fiscal policy. The analysis of fiscal corroborates with the argument that the Brazilian government not only misuses its fiscal instruments to distribute income, but also acts as a Robin Hood in reverse, withdrawing from those who have less to subsidize or pay transfers to those who have more.

Keywords: political economy; inequality; institutions; fiscal policy; Brazil.

INTRODUCTION

The paper's goal is to discuss an institutional explanation for the income inequality's persistence in one of the most unequal country in the world, Brazil. The study focuses on the analysis of the determinants of the maintenance of dysfunctional levels of income distribution, using the case of a nation considered one of the most unequal in the world, Brazil. This continental-sized developing country with a long and persistence inequality history presents an interesting object of study in the political economy field, especially, regarding its fiscal policy.

[1] CARVALHO, J.M. Cidadania no Brasil, o longo caminho. Rio de Janeiro: Civilização Brasileira, 2001, p. 229.

The worsening or at least the stabilization of inequality has been affecting both the emerging and developed economies in the last thirty years, albeit with distinct patterns and intensities. The international crisis of 2008 has contributed to aggravate this distributive framework (Cingano, 2014; OECD, 2015; World Inequality Lab, 2017). In

this context, Ostry, Berg and Tsangarides (2014) argue that the literature is increasingly convergent that inequality is a barrier to social and economic development which affects low level of long-term investments; precarious formation of human capital, regime instability, restrictions on citizenship activities, compromises social mobility and promotes protectionist positions, among other complex issues (ECLAC, 2018a; OECD, 2011; 2015).

Equality, on the contrary, is a requirement for advancing a development model focused on innovation and learning, with positive impact on productivity, economic and environmental sustainability (ECLACa, 2018). In the same direction, the World Bank, in its annual reports, has placed inequality not only as a hindrance to economic development, but as an inherent part of it. Put differently, the current and comprehensive understanding is that the nation's development is not restricted to growth; nevertheless, in fact, it also includes dimensions of equality and security (World Bank, 2017).

In Brazil, there is an intense debate about changes in the inequality's pattern in the past years. During this period, a comprehensive process of inclusion in the social protection system of the historically marginalized population was undertaken, especially in education and welfare, which positively impacted their income and quality of life. Considering a certain consensus that the economic determinism for inequality does not explain it all. Arretche (2018) analyzes the process that, in some extent, reduced the differences between the insiders and outsiders of the social policy system based on two assumptions: (i) changes in the design of Brazilian social policies, (ii) under universal suffrage, the left and right parties converged around the preferences of the beneficiaries of redistributive policies, health and education. Therefore, the author argues that the determinant of this trajectory is the role of political competition in the democratic context rather than the hypotheses of the median voter or the growth of left-wing force.

However, in the same period, despite the improvements in the living conditions of the poorest, there was no significant change in the income disparities in the Brazilian population. As the hypotheses of the median voter, the growth of left-wing force (in Brazil it occurred mostly in the Executive branch from 2003 to 2016) and the political competition do not stand in this case, what could explain the income inequalities' persistence in Brazil?

To address this question, the paper, grounded in the new institutionalism theory, departs from the premise that the political process is central in building functional institutions oriented to development, in this case, better income distribution level. It is assumed that they are a matter of politics and policies resulted from collective choices that reflect differences in political institutions and different of political power sharing. The inquiry aims at exploring the relationship between inequalities resilience and the Brazilian political system that generate dysfunctionality of the economic institutions.

To do so, the paper presents a framework to analyze these institutions, understood as rules of the game that set "constraints" on human behavior (North, 1990), since they entail a political equilibrium and collective choices resilient to change in the inequality dimension. Then, it employs process-tracing method in order to depict this analytical framework showing the causal mechanism responsible for the inequality's status quo maintenance. In order to explain the process the paper focuses on the updated literature of electoral rules effects, campaign financing and corporate influence in Brazil.

Empirically, the article tests this analytical framework, based on the case of the (re)distributive fiscal policy in the country, since this dimension is considered crucial in the strategies to tackle inequality (Atkinson, 2015; ECLAC, 2018a; OECD, 2011; 2015; Oxfam, 2017). Thus, the configuration of Brazilian fiscal policy, its collection and spending issues that often characterize it as Robin Hood in reverse, and in alignment with the causal mechanism of the framework, the paper discusses the political and institutional barriers that prevent changes in this scenario.

Besides this introduction, the paper has other five sections. The next emphasizes the persistence of the income concentration in Brazil and the recent methodological improvement regarding its estimation. The third discusses the institutional theorybehind the analytical framework to approach the tenacity of inequality and its causal mechanism, which is fourth section. Moreover, the case of the Brazilian fiscal (re)distribution policy is addressed, with focus on the tax system, considering its features, paradox and barriers to change. Lastly, the paper ends with some conclusions and further research agenda.

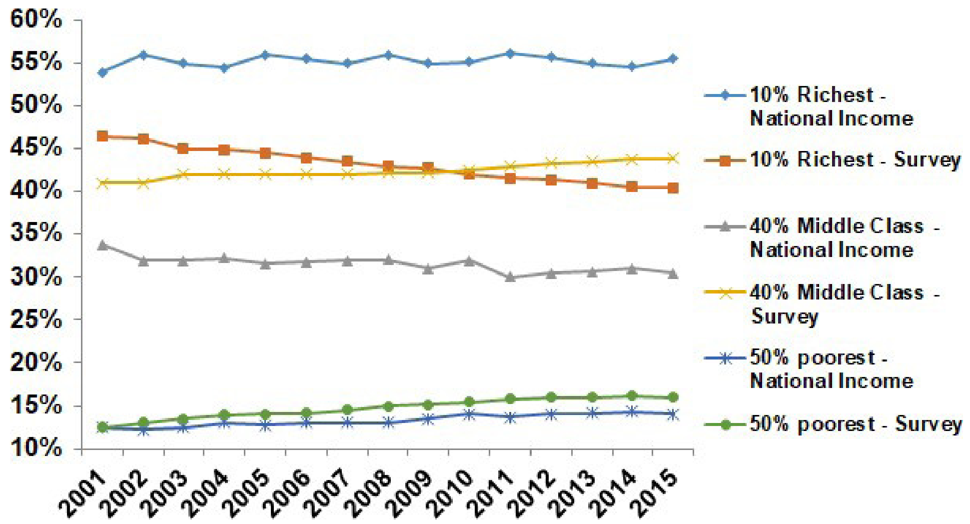
Much of the contemporary emphasis on inequality stem from the recent research that demonstrates the persistence of inequalities in the world (Atkinson, Piketty and Saez, 2011; Piketty, 2013; 2015a; Atkinson, 2015). The previous findings on income distribution were based on purely theoretical speculations and weak empirical bases. Current studies have gone beyond the analysis of household survey data and incorporated capital income information from the wealthy group of the population through income tax statements and national accounts. The results of this new approach have confirmed the processes of income concentration advancement in the world.

In Latin America, research based on household surveys show that both poverty indicators and labor income inequality in the region decreased between 2002 and 2014, mainly due to the revenue growth of the low-income population. However, there is a clear slowdown of this trend in the recent years (ECLAC, 2016; 2018a).

This same pattern was identified in Brazil, the region's most unequal nation and one of the worst income distributions in the planet. Since 1988, the Gini coefficient has dropped by 16%, from 0.61 to 0.51 in 2015; however, the latest studies, incorporating other data sources in addition to household surveys, have shown that the concentration patterns continue high and stable (Medeiros and Souza, 2013; 2016; World Inequality Lab, 2017; Assouad, Chancel and Morgan, 2018). Moreover, the public sector itself contributes to worsen this situation, since governmental transfers supposedly created to face inequality, such as welfare benefits and direct taxes, loses impact by the regressive transfers of the social security pensions and the high wages of the civil services (Medeiros, Galvao and Nazareno, 2015).

Figure 1 below illustrates this stability as well as the different findings of these methodologies employed to observe income concentration of three segments of the population - 10% richest, 40% middle class and 50% poorest. The results of the series restricted to household surveys and the national income, which is composed by data from surveys, income tax and national accounts.

Figure 1 - Evolution of the National Income Distribution in Brazil, 2001-2015



Source: Morgan (2017)

It is noticeable that the differences are, in fact, significant between the methodologies. While the restricted to the surveys shows constant improvement in the distribution, the strategy that also aggregates the capital income data indicates strong resilience to change (Morgan, 2017). Despite the contemporary structural transformations in the Brazilian economy, such as monetary stabilization, combined with the advances in redistributive public policies (real increase of the minimum wage and focalized income transfers to poor families), they were not sufficient to change the high pattern of income concentration in the country. The gains of the poorest 50% explain the reduction in poverty and absolute poverty indicators but they did not change the share of the wealthiest 10%. Therefore, it is evident that those who lost effectively were the intermediate 40%, who objectively dropped from 34% to less than 31% in the national income share.

In addition, more recent studies even based on household surveys are also showing that the ongoing economic crisis has affected negatively the poverty and inequality rates. Put differently, since 2015, the misery and poverty rates are increasing and the Gini index, after a long decreasing curve since 2002, started to grow again (Neri, 2018).

Além da conjuntura de longa recessão e taxas de desemprego recordes, a desigualdade, mensurada pelo índice de Gini da renda familiar *per capita*, decrescente desde 2002,

In this sense, this paradox of long and persistent inequality presents itself as a relevant subject of study in political economy. If the literature has advanced at determining the reasons for the bad distribution of wealth in Brazil and its deleterious effects on the country development, how could the failure of the Brazilian public sector to change this scenario be explained?

AN INSTITUTIONAL APPROACH

The economic determinism no longer stands as the only explanatory strategy for the distribution of wealth and income, mainly because it is also a political problem. As Piketty emphasizes (2013, p. 29):

> "The history of inequality is shaped by how political, social, and economic actors see what is fair and what is not, as well as by the relative influence of each of these actors and the collective choices that come from it. That is to say, it is a result of the combination of interaction forces from all actors involved."

Since the mid-1980s, political economy has been struggling to deal with complex phenomena from the new institutional approach (Evans, Rueschemeyer and Skocpol, 1985). Institutions consist on formal or informal rules that players follow for normative, cognitive, or material interests, while organizations are durable entities with formally recognized members whose rules also contributes to institutions of the political economy (North, 1990). In this context, politics and public policies originated from collective choices reflect differences in institutions and political power sharing (World Bank, 2017). Put differently, political institutions affect social interactions, resolution of conflicts of interest and play an important role in defining the economic performance of nations (March and Olsen, 1989; Easaw and Savoia, 2009; North, 1990).

If, for decades, most social scientists were focused on how to do 'right' economic policies, with principles and examples of different political, social and economic contexts, the current and more realistic emphasis is on investigating what, especially, why developing nations continue to do the 'wrong' ones. To this end, identifying the institutions that generate the persistence of inequalities is a promising analytical strategy. Logically, that history matters, especially due to path dependence processes, which means that a set of decisions at a specific moment is limited by previous decisions or events (Pierson, 2000). However, it is not necessary to go far back in time to explain income concentration, especially since the view of inequality origins strictly to the colonial past is already seen as a myth (Williamson, 2015). Nonetheless, it does not mean that historical and cultural heritages are irrelevant. As ECLAC (2018b, p. 48) affirms: "the culture of privilege operates as a deep substrate on which inequality is cemented and reproduced in Latin America and the Caribbean". This culture naturalizes the differences in society that is also stablished by actors (elite) that are benefited by the social hierarchy, embeddedin rules and practices.

The main point here, although, is not in the reasons for inequalities, but in the factors that reproduce them and keep them unchanged nowadays. The argument for this analysis relies on the fact that economic performance is directly related to the institutional arrangement and political process that determine the economic institutions (Acemoglu, Johnson and Robinson, 2005; Acemoglu and Robinson; 2008). Wealth inequalities, therefore, can be explained by the interaction between political and economic institutions, in which unequal societies the exploitative and inefficient institutions prevail (Easaw and Savoia, 2009).

Acemoglu and Robinson (2012) advance at characterizing these complex causal mechanisms. To do so, the authors classify institutions as inclusive and extractive. Inthe first case, the institutional arrangement is prone to economic growth, since in the politics environment fosters pluralism, encourages broad citizen participation and imposes restrictions and controls to politicians' behavior. While the inclusive economic institutions ensure the rights of property, law and order, free openness for new business, access to education and opportunities to a large majority of citizens. In the interaction between these institutions, investments in new technologies are encouraged and the process of creative destruction is not contained (Schumpeter, 1941).

At the other extreme, extractive institutions in politics culminate in the concentration of power in the hands of a few individuals and/or social groups, weaknesses and volatility in accountability, in the checks and balances mechanisms or in the rule of law. In economics, there are lack of law and order, unsafe property rights; barriers to entry and regulations that hinder the efficient and free operation of markets. As a result, although there have been cases of growth in the context of extractive institutions, they are normally short and mid-term and, above all, tend to favor elites (Acemoglu and Robinson, 2012).

Considering this taxonomy, what would explain the persistence of these extractive institutions? In the case of inequalities, there impact consist on the concentration ofstate benefits and wealth in the hand of a small part of the population. To understand specifically the dynamics of inequities in societies, Acemoglu and Robinson (2015) proposed an alternative approach that take into account both the effect of different types of institutions on the distribution of resources and the endogenous evolution of these institutions. The framework is an adaptation from the one presented in Acemoglu, Johnson, and Robinson (2005), used to explain countries' economic growth. Figure 2 below outlines the interaction between political and economic institutions and their impact in terms of development (growth and equity).

Figure 2 - Institutions and Development Cycle

$$\begin{array}{ccc}\text{political institutions}_t & \Longrightarrow & \left.\begin{array}{c}\text{de jure political power}_t\\ \& \\ \text{de facto political power}_t\end{array}\right\} \\ \text{inequality}_t & \Longrightarrow & \end{array} \begin{array}{l} \Longrightarrow \text{economic institutions}_t \Longrightarrow \left.\begin{array}{c}\text{technology}_t,\\ \text{skills}_t, \&\\ \text{prices}_t\end{array}\right\} \Longrightarrow \left\{\begin{array}{c}\text{economic performance}_t\\ \&\\ \text{inequality}_{t+1}\end{array}\right. \\ \\ \Longrightarrow \text{political institutions}_{t+1}\end{array}$$

Source: Acemoglu and Robinson (2015).

In this framework, the arrows describe influence, mediated by various stochastic events and political economy interactions, which produce very different institutional answers depending on the prevailing political equilibrium (Acemoglu and Robinson, 2015).

The prevailing political institutions, together with inequality in society, at a certain time affects the distribution of *de jure* political power as well as the *de facto* political power. The first reflects the political institutions formally present in a country,including the form of government (democracy versus autocracy) and the extension of restrictions to political elites, as well as the distribution of resources in society. In fact, political power is still influenced by the logic of collective action and by the effective sharing of power. All these factors affect both the setting of economic institutions and the maintenance or change in the political *status quo* in t + 1. Obviously, in a nation with a high concentration of resources in the hands of a few, when extractive political institutions prevail, the probability of t + 1 reinforces this context in both politics and economics.

It is *de facto* power the agent of the *status quo*. The uneven distribution of resources in the society favors the wealthy minority to establish the rules of the game, both formal (*de jure*) and informal (*de facto*), that strengthens its political power. Similarly, the economic institutions tend to affect the supply of skills - essential as a determinant of inequality, and technology, including whether and how efficiently existing technologies are employed and improved in a particular economy.

Consequently, the elite not only reproduces these political institutions but, above all, preserves the economic institutions, such as a regressive tax system or labor legislation pro employers, that reinforce the income concentration. The extreme inequality, persistent in Brazil, affects and is affected by these institutions that, in the case of extractive in the oligarchic political context, generate pursuit of predatory rent seeking and constant distributive conflicts.

Acemoglu and Robinson (2015) highlight that both technology and factor prices are shaped by the evolution of institutions and political equilibria—and institutions themselves are endogenous and partly influenced by, among other things, the extent of inequality. In a scenario of extractive institutions, the framework described tend to generate a vicious cycle in terms of economic performance and inequality. To illustrate has the institutional paths of these societies define the histories of inequality, the authors use the Sweden and South Africa examples.

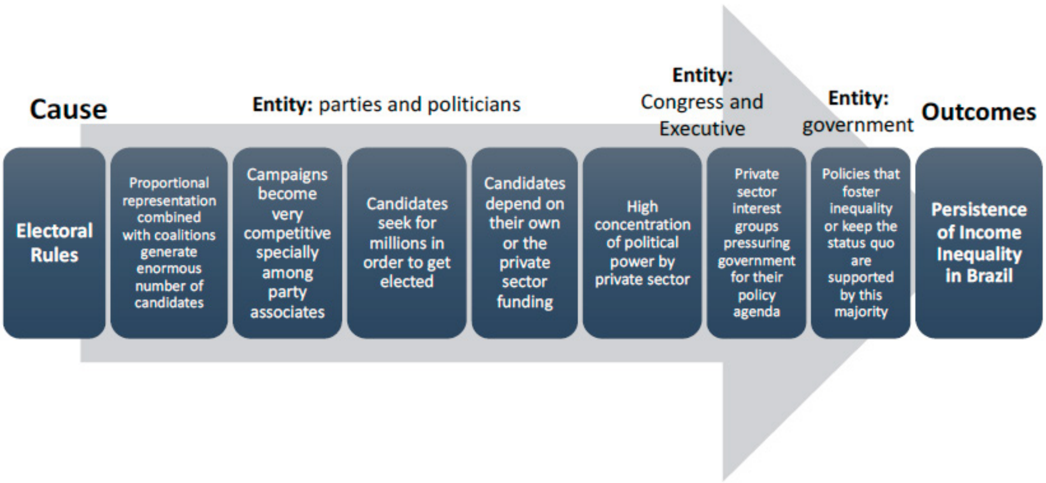
This theoretical framework is convergent with Immergut (1996) findings. Analyzing the behavior of the actors involved in health policy discussions in France, Switzerland and Sweden, she argues that constitutional norms and electoral results constrain the capacity of governments to reform. Such institutions change the relative power of the actors and, thus, influence the strategies adopted by interest groups in defending their preferences. The author concludes that the distinct results in social policy can only be explained based on the analysis of the political institutions of each country. The framework of these institutional arrangements composed by *de jure* rules - institutional design - and *de facto*, stemmed from the electoral results and party systems, that determinates decision logic, the parameters of government action and the influence capacity of the groups of interest.

The paper explanation for the tenacity of inequality relies on the premise that the political process is central to understand how dysfunctional institutions can hinder development, in this case, bad income distribution level. It is a matter of politics and policies resulted from collective choices that reflect differences in political institutions and political power sharing.

The main theoretical claim is that the extractive institutions in Brazil, along with the high level of inequality in the economy, generate concentration of *de jure* and *de facto* political power. As a result, the elite tends to keep the political *status quo* and prevent effective distributive public policies. As Acemoglu and Robinson (2015) argue, the institutional arrangement dominated by extractive institutions consists in a vicious cycle that can explain the inequality persistence.

Considering the complexity of the phenomenon, the inquiry employs process tracing to identify this cycle and, mainly, its casual mechanisms. In short, process tracing is a qualitative method used to investigate, in dynamics contexts, interactive influence of causes upon outcomes and, in particular, how causal forces are transmitted through a series of interlocking parts of a causal mechanism to produce an outcome (Beach and Pedersen, 2013). The Figure 3 below traces the process of how the sequence of these interactions, the causes affecting a variety of entities (parties, politicians, Legislative and Executive branches), that explains the final outcome – the tenacity of inequality.

Figure 3 – Causal Mechanisms of the Persistence of income Inequality in Brazil



Source: Author's Elaboration.

The first cause comes from the electoral rules. Brazil is a relatively new democracy with a complex and confusing political systems, which is mostly due to party and electoral rules that have constantly changed since the Federal Constitution of1988. Although the country is formally considered free, by the Freedom House ranking[2], in a more comprehensive approach of democracy, such as the concept of polyarchy of Robert Dahl (1973), the quality of democracy in Brazil could be less positively assessed. Polyarchy is a system that manages to supply a high level of inclusiveness and a high level of liberalization to its citizens, thus, the existence of inequalities in these two dimensions is a barrier to an effective democracy (Dahl, 1989).

Since 1988, every election in Brazil has suffered changes because of party and electoral reforms, however none of them has, in fact, brought significant modification in the political system. The main reason is that the system combines proportional representation with party coalitions without any barrier clause that, overall, generates enormous number of candidates. For examples, last election for the House of Representatives (lower chamber) had over seven thousand candidates and 35 different parties competing for 513 seats[3]. In this sense, the literature argues that the system induces the candidates to compete not only against other parties' rivals, but also against members of their own coalition (Nicolau, 2013; Mancuso *et al.* 2016).

2 https://freedomhouse.org/report/freedom-world/freedom-world-2018.

3 http://www.tse.jus.br/eleicoes/estatisticas/repositorio-de-dados-eleitorais-1/repositorio-de-dados- eleitorais.

This increases the competition, including among party associates (Silva, 2017), that together with the large size of the electoral district (Silva *et al.*, 2015; Peres da Silva, 2017) and the universalization and mandatory voting, make the campaigns more and more expensive. The campaigns costs are also growing, because their professionalization process, the new forms to reach voters - essentially by sophisticated advertising, and the decline of mass parties (Silva and Cervi, 2017).

For instance, according to Superior Electoral Court (*Tribunal Superior Eleitoral – TSE*), on average, to be elected as federal representative, on average, costs over US$ 2 million, not mentioning the part of the campaign accounting that is not informed to the electoral justice, a common practice in the Brazilian political system.

Although the public funding covers part of the costs, for the Legislative posts it is insufficient to undertake a successful campaign, which leaves the candidates with two choices: self-funding or search for private funding[4]. Although citizens are allowed to donate for parties and candidates, it is not a usual practice in the country (Speck, 2011; Mancuso and Ferraz, 2012).

Theoretically, corporate sectors finance electoral campaigns for different reasons: i) ideological preferences; ii) social ties with the beneficiary (e.g., friendship, family and links, class identity); iii) a pragmatic strategy to foster closer relation with the ruling party or with opposition parties with a greater chance of winning; iv) as compensation for benefits given in the past (government contracts, favorable legislative or administrative decisions) and; v) expectation of gaining these same type benefits in the future (Mancuso *et al.*, 2016).

In this context, the campaign financing in Brazil varies according to the elective position, election year[5] and the candidates and parties profile. Overall, the majority of the funding comes from the corporate firms since democratization after 1988 and in all type of elections - Legislative and Executive branches as well as in the local, state and federal level. For instance, in the 2014 presidential campaign, approximately 94% of the financial resource stemmed from the corporations.

Nevertheless, most of the are from a few sectors of the economy, such as banks and building contractors, which usually have strong links with government policies, whether for regulatory issues or large contracts (Mancuso, Horochovski and Camargo, 2016). This percentage decreases in the funding for Congress elections, but not to the point of withdrawing the leading role of the private sector. In the 2010 Brazilian elections, over 75% of the electoral funding came from the private companies; however, only seventy companies made half this donation (Mancuso and Ferraz, 2012). Besides, in the same elections, the own financing corresponded to 10%, which usually are made by the richest candidates (Mancuso, 2015). These facts reinforce the next part of the causal mechanisms (figure 3 above) which consists in the candidates seeking for private funding or, in the case of rich politicians, investing a hug amount of own money in their campaigns (Silva *et al.,* 2015).

The corporate campaign finance also varies according political factors and candidate's individual characteristics, which demonstrate how unequal are the funding distribution as well.

The literature has shown that the private sector favor incumbents instead of challengers, center and right wing candidates, bigger parties and the ones part of the presidential coalition (Lemos, Marcelino and Pederiva, 2010; Speck, 2011; Mancuso, 2012; Cervi *et al.*, 2015; Mancuso and Speck, 2015). In individual terms, men with college education and executives are also prioritized by the private sector. Subsequently, not only top raiser in the corporate funding are more likely to be elected than the other candidates, but also the rules of the political game promote reduction in the turnover rate as well as a close relationship (if not dependence) between private sector interest groups and the government. Conversely, smaller part of the electoral funding was individually donated by citizens and mostly designated to left-wing parties (Speck, 2011).

In this sense, Brazilian scholars conclude that corporate campaign finance strongly favors electoral performance in the elections for both Legislative and Executive branches. The higher the funding, the higher the winning changes (Peixoto, 2010; Cervi *et al.*, 2015; Mancuso *et al.*, 2016; Speck and Mancuso, 2017).

[4] In 2015, the Supreme Court (*Supremo Tribunal Federal - STF*) prohibited corporate financing of campaigns, however, in the federal level; this decision was only put in practice during the 2018 general elections.

[5] There has been a significant increase in party contributions to the detriment of direct to candidates between the elections from 2010 to 2014. Silva and Cervi (2017) argue that was just a corporate strategy to reduce transparency and the capacity to track the firms' relations individually with politicians.

It is evident, that the corporate leading role in funding the Brazilian democracy has an impact on political competition, the candidates' performance and the dependence of the political class in relation to this sector. Thus, the pattern of electoral financing generates imbalances in democratic representativeness, considering that benefits professional politicians as well as the right-wing candidates and parties aligned with the government, which tend maintain the *status quo*.

These effects also generate a high concentration of the political power in the hands of the private sector, especially, business and rural sectors. The distribution of power *de jure* and *de facto* in the National Congress may be measured by size of the business and the rural caucuses, for example. Both caucuses are over represented in Congress, in comparison to their percentage in the general population of the country. The table 1 below show number and percentages of them in the current legislature:

Table 1 - Business and Rural Caucuses in the National Congress (55th Legislature 2015-2019)

	Total	Business Causus		Rural Causus	
	N	*N*	*%*	*N*	*%*
House of Representatives	513	246	48%	228	44%
Senate	81	27	33%	27	33%
National Congress	594	273	46%	255	43%

Source: www.camara.gov.br

Regarding the ideology dimension, it is also worth mentioning how uneven the seat distributions in both chambers are. Left-wing parties are historically associated to redistribution policies, whereas they are not the main concern of the right-wing parties (Bobbio, 1996). Based on the estimations of party ideology from Power and Zucco (2013)[6], in the last four legislative elections (2002 to 2014) the center-right parties represent the large majority – controlling approximately 70% of the National Congress. While in lower chamber this disparity has not changed during this period, in the Senate the center-left parties increased their seat percentage from 25% in 2002 to 34% in 2014. However, it is not enough even to approve an ordinary bill.

Therefore, either the private sector caucuses or the center-right parties are able to gather a considerable number of congressmen that allows then to control some strategic committees, propose any type of bills, filibuster or act as crucial veto players in any law proposal in course in the Parliament.

This representative issue also occurs in the Executive branch, since the businesspersons and property owners have also historically occupied strategic posts, primarily, in the ministries related to economic policies (Palotti and Cavalcante, forthcoming). Besides, the parties in Congress, allied to the President, appoint most of them. The national elite is also well represented in the Administration's most important posts. The ministers in the new democratic period (since 1990) are mostly white man with high level of education, graduated from the top universities in the country, and from the richest states, i.e. south and southeast regions (Soares D'Araujo and Ribeiro, 2018; Palotti and Cavalcante, forthcoming).

In sum, the political institutions and their effects that generate a high concentration of political power in these specific groups are also responsible for dependence of the majority of the congressional representatives to the private companies that funded their campaigns. If it is not only *de jure* political power, but mainly, it is *de facto*.

The interaction between the inequality in the economic field and the prevailing electoral rules culminate in a setting of *de jure* and *de facto* political power that, invariably, culminate in economic institutions or policies, supported by this governing elite, that foster inequality or keep the *status quo*. This corporate influence is also a subject of study in the Brazilian political economy literature.

Regarding the business and rural sectors, Simionatto and Costa (2012) and Rangel, Bolonha and Faroni (2015) show that they are often successful in several initiatives. Figueiredo Filho (2009) analysis more than twenty paper and finds that, although the effects may vary according to the policy issue or the politician's profile, the bulk of the studies demonstrate influence of campaign contributions on legislative behavior.

[6] Estimates of party ideology are measured by the congressmen's perception of their parties position regards to state intervention in the economy. More leftist, more interventionism, both on the revenue and expenditure dimensions, while the more rightist presupposes less interference by public sector (Power and Zucco, 2013).

The corporate influence may occur in different forms. Claessens, Feijen and Laeven (2008), identified a positive relationship between financing and access to credit from public banks, whereas Lazzarini *et al.* (2011) showed that firms with highest donations to electoral campaigns received more loans from the National Bank for Economic and Social Development (BNDES).

Boas, Hidalgo and Richardson (2014) found a positive relationship between financing of winning candidates and access to public contracts. Gonçalves (2012) demonstrated that several business sectors that donated to the presidential elections in 2002 and 2006 received tax benefits. Focused on the same elections, but in the Congress sphere, Mezzarana (2011) analyzed articles published in newspapers to map general benefits to major corporate funders.

In economic arena, Santos (2014) e Santos *et al.* (2015) investigate the vote of Brazilian federal deputies in relation to the projects of interest to the National Confederation of Industry. The results show that there is indeed an effective lobbying influence on outcomes, but it is more effective to create a barrier to new legislation than to change the *status quo* in its favor. Finally, the paper concludes that the synergy between the Executive Branch and the private sector is the main determinant of the success ofthe industry within the Parliament.

Finally, in recently released paper that describes the results of a survey with Brazilian lobbyist, Santos *et al.* (2017) show that Legislative is the most important arena, followed by the Executive branch. Besides, the majority of the respondents emphasize their investments on conservative politicians, in other words, they prefer to finance candidates whose position is already known and who are their allies.

These studies clearly highlight how the institutions and their effects during and after the campaign deviate the political system from the polyarchy system and, on the contrary, approximate it to an elite arrangement similar to the iron triangle relationship in the policymaking (Gordon, 1981). Consequently, this dysfunctional democracy impacts how the public policies are designed, implemented or not changed

FISCAL POLICY IN BRAZIL: FEATURES, PARADOX AND BARRIERS TO CHANGE

This section analyzes the interactions between political and economic institutions and their effects on (re)distributive fiscal policy in Brazil to test the proposed framework. The fiscal dimension is notoriously considered one of the main locus to tackleinequality (Atkinson, 2015; Afonso *et al.*, 2017; ECLAC, 2018a; OECD, 2011; 2015; Oxfam, 2017).

The article's hypothesis states that the Brazilian government is unable to employ fiscal policy to distribute income, and even in some situations performs as Robin Hood in reverse, i.e., transferring from the poorest to subsidize or pay transfers to those who have the most.

The features of the tax system (taxes and exemptions) and government transfers perpetuate this scenario of inequality. The notorious knowledge about the problem is highlighted by the specialized literature (Afonso *et al.*, 2017) and, paradoxically, by the own state organizations. Besides, the inequalities in sharing political power also consists in an obstacle to changes, which means that the ruling elite or stakeholders occupying strategic posts in the Executive and Legislative branches are veto players (Tsebelis, 2002), preventing a fiscal policy that effectively redistributes income. Thus, this section discusses the characteristics and problems of fiscal policy, its evolution and proposals for changes in the last two decades.

To begin with, in general, the Brazilian fiscal redistribution system is highly complex due, mostly, to a tripartite federalism that set a range of responsibilities, in some cases overlapping, for all levels of government: federal, state and local. Allied to this, the tax collection is also divided, basically in twelve taxes, among the three levels, in which the participation of the federal government is much more representative than the others.

Besides the complexity, on the collection side, other aspects are also constantly emphasized, especially because the weak capacity to provide income distribution. The tax burden is very close to the average of the Organization for Economic Cooperation and Development (OECD) countries, at 33% of the GDP. After a period of growth in the 1990s, it has stabilized since 2005, but little has changed in its characteristic of low level taxing on income and wealth, as well as the regressiveness on wages and consumption. The tax system is notably regressive, mainly in the taxation of services, low progressivity of income tax and several exemptions and deductions to the rich and private sector. In short, those who have more pay less (Pintos-Payeras, 2010; Andrade, 2015; Gobetti e Orair, 2015; 2016; Salvador, 2016; Afonso *et al.*, 2017).

The low redistributive effectiveness of the tax policy is directly related to the high regressiveness, considering the focus on the indirect taxes of consumption to the detriment of taxation of income, rents, financial investments, profits and dividends and property. Consequently, the tax collection aims at increasing revenues without concerns regarding taxation isonomy. Tax on consumption aggravates social inequality and moves it away from distributive justice. When all citizens nominally pay the same consumption tax, the less favored families end up delivering a larger portion of their income to the State than the richer, and the former also cannot afford to save.

This setting can be summarized as follows (Afonso *et al.*, 2017; Pintos-Payeras, 2010; Andrade, 2015; Gobetti and Orair, 2015; 2016; Salvador, 2006; OECD, 2015; ECLAC, 2018b):

- While in the OECD countries, on average, the income and profit tributes rep- resent over 35% of the tax revenue, in Brazil they are around 18%. On the contrary, the taxes on goods and services, less progressive taxes, exceeds50% while in the OECD countries are less than half of it;
- Personal income tax has five different rates, the highest is 27.5%, which may be deducted using education, health and welfare expenses, among others, that is, much less than USA (40%) or Canada (50%);Total exemption from income tax on profits and dividends distributed to companies' shareholders (adopted since 1995), the reverse of what most countries do;
- The possibility of deducting from taxable income a fictitious expense related to the so-called "interest on own capital";
- The Brazilian tax burden on rents, profits and capital gains declined by 0.23% in the 2005-2014 period (due to several exemptions) and accounted for only 6.9% of the total, against 11.5% on the OECD average. Considering the richest population, the average rate grows up to 12% at the beginning of the last hundredth of the income distribution, and falls to 7% among the richest 0.05%;

Another distributive issue involves the minimal taxation of property: only 1.40% of GDP, about 4% of the all tax collection in 2011, for example, while that percentage exceeds 10% in nations such as Canada and the United States (Salvador, 2016, Gobetti and Orair, 2015; 2016). In the Brazilian case, there is no legal provision for tax collection for watercraft or aircraft, in other words, all boats, yachts and private airplanes are exempt.

Considering this scenario, it is worth mentioning that these findings and contradictions are also recurrently found in official documents, both from the Executive and Legislative branches. The issue worsens insofar as the Federal Constitution of 1988 has the reduction of social inequalities one of its four fundamental objectives, which seems as a paradox. Put differently, the authorities have a lot of information about the problem, but they do not advance in its solutions, as it is evident in the following excerpt from a report of the Permanent Committee for Assessment the National Tax System in the Federal Senate (2016: 4):

"The Brazilian tax system is regressive, i.e., pay taxes with higher rates those who earn less; and those with high tax capacity are taxed at lower rates. This causes many serious distortions. The regressiveness of the Brazilian tax system is strongly explained by the exemption of taxes on the income and properties of the rich and the extraordinary volume of indirect taxes, which reach equally the rich and the poor."

On the public spending side, this scenario is even aggravated, since part of the literature on the subject states that the transfers, such as welfare benefits and direct taxes, tend to reduce the effect on inequality, more specifically the transfers of the social security pensions and the high wages in the civil service (Medeiros and Souza, 2013, 2016, Medeiros, Galvao and Nazareno, 2015). According to the recently released study by the Ministry of Finance (Brazil, 2017), entitled *Redistributive Effect of Fiscal Policy in Brazil*, the absolute incidence of public spending on monetary transfers is also asymmetric. For example, the share of public resources directed the richest quintile of the population is ten times more than the amount that benefits the quintile in the base of the income distribution. While in 2015, the net effect of the government on the income inequality, measured by the OECD average Gini coefficient, through monetary transfers and direct taxes, impacted by a 34% fall in this index; double the fall in income inequality observed in Brazil, even though the Brazilian tax burden is close to the OECD average (Brazil, 2017).

The fiscal policy from the point of view of equality, therefore, is notoriously problematic. Nevertheless, what has been done to change this scenario? According to the framework of this research, institutional configurations and their underlying effects on the distribution of power *de jure* and de *facto* theoretically would tend to move towards the status quo, i.e., preventing changes that reduce inequalities in the country. In order to test this argument, the investigation analyzes the changes and proposed modifications in the Brazilian tax system in the last two decades.

It worth noting that processes or transformation efforts are usually constrained by previous decisions within the perspective of path dependence (Pierson, 2000) that tend to increase transactional costs, creating barriers or possibilities for incremental changes.

However, since 1988 Constitution, the tax reform has been considered a national priority, with a high consensus in government and public opinion regarding its need. Therefore, all presidents elected during their campaigns and speeches after the inauguration defended tax system changes, two of whom sent reform proposals to Congress (Junqueira, 2015; Salvador, 2016). In addition, dozens of projects were proposed by congressmen within the Legislative branch as well, in the same period.

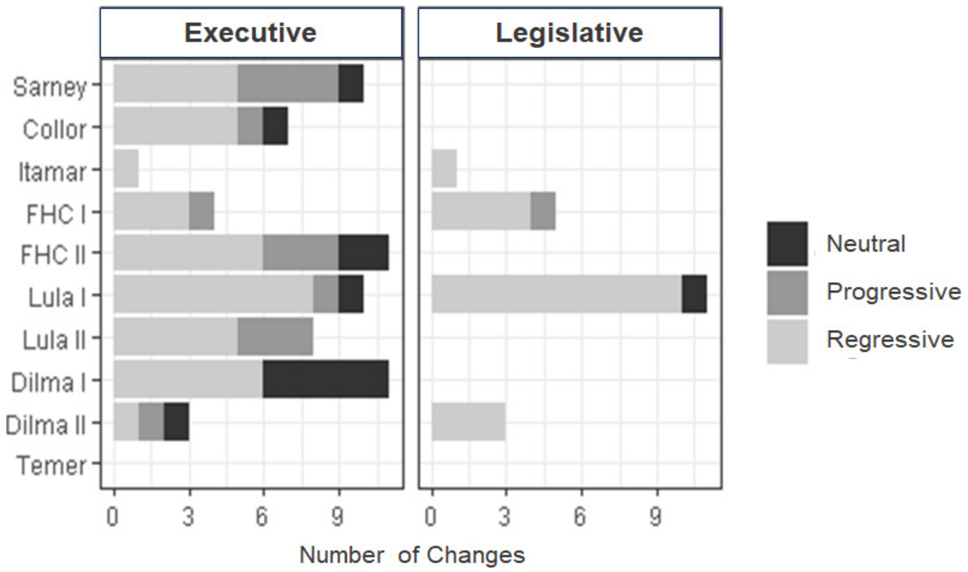
The bulk of them addressed the redistributive issue, such as the Constitutional Amendment bills 175 of 1995, 41 of 2003 and 233 of 2008. The first, in its presentation document to the National Congress at the beginning of the Cardoso administration (1995), for instance, recognizes that to promoting social justice depended on "strengthening the direct taxes - income and property taxes - that are paid by the rich and decreasing taxes on goods that are consumed by all, but have higher effects on the poor's budget" (Brazil, 1995, 10-11). In fact, this Executive reform proposal envisaged progressivity in patrimony taxes and also facilitated the regulation of the wealth tax, already inserted in the Constitution. Nevertheless, the bill, although approved in the special commission, was never put to vote in the plenary until the end of Cardoso's second term in 2002 (Junqueira, 2015).

Regarding the distributive issue, the bill 41 of 2003 formulated in Da Silva government (2003-2010), provided for the same proposals of 175, but added more tax to the financial sector as well as the permission to tax boats and aircraft. This project came to be approved, with numerous amendments, in the Lower House but never advanced in the Senate (Dall'acqua, 2005; Brami-Celentano and Carvalho; 2007). During the same administration, another reformist attempt was undertaken (bill 233 of 2008) which, although approved at the special commission in the same year, was not taken to the plenary session in the last ten years (Junqueira, 2015).

Since 2011, the last two Presidents (Rouseff and Temer) have chosen not to submit reform proposals, but have focused on incremental bills with smaller scope, such as the reduction of rates and indirect taxes on a set of products as basic food basket, basic medicines as well as the payroll exemption. Both initiatives, though, remain paralyzed in the Congress, which indicates that the Executive branch usually includes tax progressivity in official discourse and in some proposals, but despite the historically high success rate in its legislative proposals (Moraes, Miranda and Azolin, 2017), the government is little effective in the sponsorship, commitment and effectiveness in the taxation changes approval.

Another analytical strategy is to investigate the pattern of proposals and changes in tax policy in the same period. In general, in the Senate and in the Chamber of Deputies, there are several projects aiming at modifying the country's taxation system, especially those related to taxes on income and wealth. It is worth noting the predominance of congressmen and congresswomen from left-wing parties as authors of these propositions, specially the bills creating or raising tax for big fortunes, which has never passed the committees to the floor (Brazil, 2016). However, more important than analyzing projects is to examine which ones were approved and their actual distributive effects. In this sense, Lazzari and Leal (2018) systematically mapped all legislative changes related to personal income tax, with reference to their redistributive effects from the beginning of democratization in Brazil (1985) to the current administration of President Temer, summarized in Figure 4:

Figure 4 –Number of legislative changes in the IRPF due to redistributive effect, origin and mandate



Source: Lazzari and Leal (2018).

Undoubtedly, the Executive performs the leading role in tax policy agenda, although this is not mean as positive sign, since most of the legislative production during the period did not make the income tax more progressive. For instance, among the changes in the categories taxation, exemptions, deductions and regulation, 67% had regressive effects (Lazzari and Leal, 2018). In sum, the current period is far from being tied to income tax progressivity, as might be hypothesized by median voter theories, electoral competition or even the growth of left-wing force. In the latter case, even if the left wing parties defend a fairer tax policy, both in Congress and in the Executive (2003- 2016), their efforts are mitigated or barred by the other center and right parties, which have always been the majority in the Brazilian legislative sphere. These findings reinforce the perception of scholars as well as in the government that the recent variations in the population's income pattern have not brought effective redistributive impact, as exposed in the following excerpt (Brazil, 2016, 46):

> "Changes in the country's income distribution, starting in 2000, based on the Gini coefficient, did not alter structural issues of concentration of income and wealth, limiting their effects only on the incomes of those who live on labor revenue".

FINAL REMARKS

The paper's aimed at presenting an institutional explanation for the income inequality's persistence in one of the most unequal country in the world, Brazil. To do that, the study focused on the analysis of the determinants of the maintenance of dysfunctional levels of income distribution, which in the Brazilian case has not substantively changed during the last two decades.

The research is grounded in the premise that the explanation for the inequality's tenacity must come from the new institutionalism approach. Because of that, the theoretical claim is that inequality, as other dimensions of economic performance, is a consequence of the institutional arrangement and political process that determine the economic institutions, in turn, affect inequality patterns. This vicious cycle is possible because of the prevailing of extractive institutions, both political and economic.

The paper employed process tracing method to depict the mechanism describing the causes that often keep the status quo of bad income distribution in the country.Then, it discussed each part of the process based on the literature of electoral rules effects, corporate financing and influence in Brazilian political system and, tested empirically the argument using the case of the redistributive fiscal policy.

The analysis of fiscal policy setting and evolution, more specifically in the dimension of taxation, corroborates with the main argument of this research, which is, the Brazilian government not only misuses its fiscal instruments to redistribute income, but also acts as a Robin Hood in reverse, withdrawing from those who have less resources to subsidize or pay transfers to those who have more. In sum, the paper demonstrates that redistributive efforts have taken place within the Executive and Legislative branches since democratization, mainly from left-wing parties. Nonetheless, actually, the institutional setting and the causal mechanism described in the section four, converge to the perception that the ruling elite, with its strategic posts inside the State (power *de* jure) and its power *de facto*, is a barrier to the changes of the *status quo* which blocks or even aggravate the redistributive pattern of Brazilian fiscal policy and the country's income inequality.

The causal mechanism discussed and the paper's findings regarding fiscal policy are quite interesting, particularly because of the paradox of the Brazilian case in which the Constitution of 1988 recognizes a series of rights and social benefits at the same time the taxation system acts as an enemy of the welfare state effectiveness.

Finally, the tenacity of inequality is a complex subject with multiple causes, so they must be analyzed with certain caution. The causal mechanism analyzed by process tracing must be seen as an analytical strategy in a macro level perspective. The next steps of this research agenda aim at investigating how other dimensions of economic institutions that also affect inequality, such as labor market, educational and welfare systems, were stablished and evolved to, effectively, explore the influence of political institutions and the consequent *de jure* and *de facto* political powers concentrated in the hand of the elite on inequality persistence in Brazil and other emerging economies.

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