

National Political Community and the Politics of Income Taxation in Brazil and South Africa in the Twentieth Century

EVAN S. LIEBERMAN

Why was the South African state so much more successful than the Brazilian state in its attempts to collect income taxes during the twentieth century? Nationally distinctive tax policies and patterns of administration can be explained by examining the impact of contrasting definitions of National Political Community, specified in critical constitutions written around the turn of the century. The ways in which racial and spatial cleavages were addressed in the 1891 Brazilian constitution and the 1909 South Africa Act influenced the development of interclass and intraclass relations, which in turn affected the willingness of upper-income groups to accept state demands for income tax payments. Varied patterns of state development were largely predicated on contested notions of "us" and "them."

During the twentieth century, government leaders around the world attempted to collect income taxes as part of a broader effort to finance rapidly growing expenditures. Income taxation proved to be an incredibly lucrative source of revenue for many governments, while having the desirable property of being "equitable," as it could be collected with progressive rate structures. In their attempts to collect this tax, however, governments found that they faced high monitoring costs and required relatively high levels of cooperation and "quasi-voluntary"

I would like to acknowledge financial support from the Fulbright Commission, the Social Science Research Council, the National Science Foundation (NSF No. 9724055), and the African Studies and Latin American Studies Centers at the University of California, Berkeley. For their valuable feedback, I would like to thank Ruth Berins Collier, David Collier, Marc Morjé Howard, David Leonard, Anthony Marx, Robert Price, John Quigley, Ian Shapiro, and Sven Steinmo. Thanks also to the editorial board of *Politics & Society*, especially to Margaret Levi, for excellent comments and suggestions.

POLITICS & SOCIETY, Vol. 29 No. 4, December 2001 515-555
© 2001 Sage Publications

compliance, particularly from the economically dominant groups within society.¹ Unlike other forms of revenue, such as consumption taxes and social contributions, which tend to be paid more indirectly and/or with some promise of specific benefit, income tax payments tend to be highly visible and unrequited. Because the very demand for taxation provides incentives for citizens to free ride on the tax payments on others, initially, citizens have tended to resist the enactment of such policies. And while states have generally threatened coercion against those refusing to pay, coercion can be both expensive and ineffective in the wake of extensive avoidance and evasion schemes. Thus, state leaders attempting to collect income taxes have been highly dependent on the *willingness* of upper-income groups—who control the lion's share of taxable resources—to pay such taxes.

Over the course of the twentieth century, levels of cooperation with state demands for income tax payment have varied widely. In some countries, citizens have essentially ignored the state's income tax policies, and virtually no tax has been collected at all. In others, some income tax revenue has been collected, but with significant challenge from those liable during the policy-making and/or compliance stages. And in still other countries, the tax has been collected effectively and efficiently, with few significant challenges from within society. In turn, such variation has influenced the size of the state treasury, the functioning of markets, and the after-tax distribution of income within society. Such patterns of income tax policy and administration also reflect more generally on the relationship between the state and upper class groups within society and the degree to which such relations can be described as either adversarial or cooperative.²

Brazil and South Africa are cases of highly contrasting outcomes in terms of levels of state success in collecting income taxes from upper groups during the 20th century. On one hand, despite repeated attempts, the Brazilian state has never managed to collect huge sums of income tax, and by the 1990s, income tax collections amounted to only about 5 percent of GDP. Instead, Brazilians have paid a wide range of complicated, hidden, and largely regressive taxes, levies, and other charges. By contrast, the South African state has managed to become one of the world's most successful income tax collectors, collecting approximately 15 percent of its GDP in the form of progressive, direct income taxes, largely from high-income earners.

Such contrasting outcomes are remarkable in light of enormous social, political, and economic similarities between the two countries (see Table 1). In terms of most development indicators, the two countries are virtually identical, with similar levels of per capita income and similar levels of industrial development. In both countries, the size of the state is relatively large when compared with other upper middle-income countries, and total central state expenditure as share of GDP is about the same. These two societies are also characterized by the most unequal distributions of income in the world, as measured by the GINI coefficient, and in both, such economic inequalities are highly correlated with racial differ-

Table 1
Development Indicators in Brazil and South Africa (1994)

Indicator	Brazil	South Africa
GDP/Capita (\$PPP)	5,400	5,130
Manufacturing/GDP (%)	25	23
GINI Index	63.4	58.4
Race \times Income correlation	High	High
Government expenditure/GDP (%)	32	33

Source: World Bank. *World Development Indicators on CD-ROM*. Ronald Inglehart et al. *World Values Surveys and European Values Survey, 1981-1984, 1990-1993, and 1995-1997* [Computer file]. ICPSR version. Ann Arbor, MI: Institute for Social Research [producer], 2000. Ann Arbor, MI: Interuniversity Consortium for Political and Social Research [distributor], 2000.

ences. Moreover, these two countries share legacies of colonialism, European immigration, and slavery. In the wake of such similarities, it is surprising that the mix of tax policies and their application should be so different in the two countries.

In this article, I argue that historically constructed definitions of National Political Community (NPC), varying in terms of how racial and regional cleavages were addressed in critical constitutions, influenced the development of class relations, political strategies, and ultimately the willingness of upper-income groups to cooperate with state demands for tax payment. The National Political Community is the official, state-sponsored definition of the nation, which is specified in constitutions or other key policy documents during critical moments of political change. Although for most of the twentieth century, repressive regimes governed both countries to the benefit of the wealthy, I demonstrate that contrasting modes of inclusion and exclusion from the political community shaped very different political dynamics, and were ultimately responsible for very different paths to inequality. Through a series of intervening causal steps, the explicit form of exclusion that was embodied in South Africa's institutionalized white supremacy ultimately legitimated the state in the eyes of white-owned firms and high-income individuals. Although lower-income whites constituted only a minority of all low-income people in Southern Africa during the first half of the twentieth century, the definition of a white NPC eventually facilitated strong cross-class linkages between the white working class and the virtually all-white, upper-class groups. Ironically, this produced the legacy of a set of progressive tax policies and administrative practices that are today far more beneficial to blacks in that country than what their black counterparts inherited in modern Brazil. By contrast, in Brazil, where race chauvinism has been expressed in more subtle ways, but not through official state policy, class relations unfolded in almost the exactly opposite manner. The federal constitution helped make regional identities politically salient, and the virtually all-white upper groups came to see their interests as more

competing than shared. Such dynamics further exacerbated the distance *between* economic classes by providing idioms for mobilizing a sense of difference. In such a context, upper groups have not identified strategically or normatively compelling reasons to cooperate with the state executive and have largely resisted enforcement of the income tax. Without such “quasi-voluntary” compliance, state efforts to collect have been far less successful. Over time, these political patterns, and the tax policies and administrative practices they engendered, became increasingly institutionalized within these two countries.

The remainder of this essay examines this argument through comparative analyses of political, economic, and social factors, and their influence on income tax collections. It begins by considering the limitations of several possible explanations to account for the variation between the two countries. It proceeds to investigate the alternative explanation by analyzing the impact of varied definitions of National Political Community on the development of tax politics in the respective countries. The comparison reveals that in response to similar sets of political problems, two very different political solutions were codified in founding constitutions, generating nationally distinctive patterns of class relations. The article shows how such class relations affected upper group calculations and responses to new demands for taxation during three key moments in the twentieth century, ultimately leading to the development of very different sets of income tax policies and patterns of collection—what I will refer to as the “tax state.”³

NATIONAL PATTERNS OF INCOME TAX COLLECTION AND RIVAL EXPLANATIONS

To account for contemporary differences in levels of income tax collection, it is necessary to investigate the historical trends and turning points in Brazilian and South African collections in the twentieth century. Prevailing theories of the political economy of taxation can account for common, over-time patterns of income tax collection, but critical differences in the trajectory of those collections remain unexplained, providing room to consider alternative hypotheses.

Figure 1 plots the central state’s collection of income taxes in the two countries from 1912 to 1997 and it reveals important patterns of similarity and difference in the timing and quality of tax state development. In both countries, income tax collections as share of GDP rose from virtually nil at the beginning of the century to substantial shares of much larger economies by century’s end. In particular, these collections rose dramatically during the period of approximately 1939 to 1945, to be followed by slight declines until the mid-1960s. After this period, collections rose fairly steadily for the rest of the century.

Beyond these similarities, however, there are critical differences. The most prominent contrast in the two-country, over-time comparison is that the rate of increase in total collections of income and property taxes was more than three times greater in South Africa than in Brazil. By 1917, South African collections

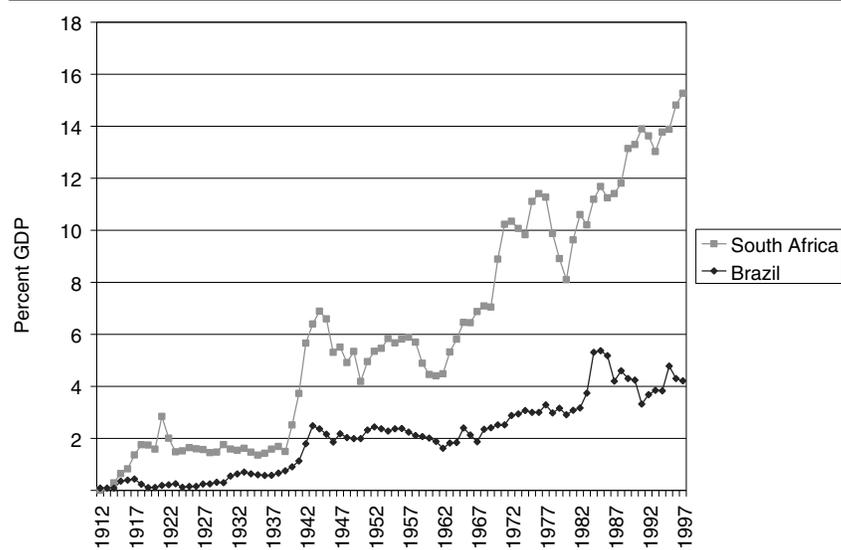


Figure 1. Income tax collections in Brazil and South Africa (1912-1997).

Source: Escola de Administração Fazendária, *Sistema Tributário: Características Gerais, Tendências Internacionais e Administração* (Brasília: Secretaria da Receita Federal, 1994). Fundação Instituto Brasileiro de Geografia e Estatísticas—IBGE, *Estatísticas Históricas do Brasil: Series Econômicas, Demográficas e Sociais de 1550 a 1988* (Rio de Janeiro, Brasil: IBGE, 1990). South Africa. Bureau of Census and Statistics, *Union Statistics for Fifty Years, 1910-1960* (Pretoria, South Africa: Union of South Africa, 1960). Republic of South Africa, *Budget Review* (various years).

Note: Does not include taxes on mines.

grew quickly to almost 2 percent of GDP, while in Brazil they remained at a fraction of 1 percent until the 1940s. During both subsequent periods of increased collections, the gains achieved in the South African case were much greater than those in Brazil. These divergent trends were fairly well established by the first half of the century, and nationally distinctive patterns have persisted largely until the present day. In the remainder of this section, I consider several possible determinants of the varied trajectories—including economic, international, and cultural factors, as well as the problem of corruption—and I demonstrate that no single one, or even a combination of these explanations, is fully sufficient.

Economic Influences

Analysts from a range of theoretical perspectives have argued that the processes of industrialization and economic development have strongly influenced the development of taxation systems around the world.⁴ Empirically, it is easy to verify that wealthier and more developed economies tend to generate not just more tax revenue in an absolute sense, but even relative to the size of their econo-

mies. The central state's collection of direct taxes on income and property also tends to increase with levels of economic development.⁵ As shown in Figure 2, the correlation between per capita GDP and income and property tax collections as share of GDP during the period 1990-1994 was strong.⁶ On the other hand, from the perspective of the best-fit line in Figure 2, it is clear that South Africa collected a larger-than-expected sum of such taxes for a country at its level of development, while Brazil's take was smaller-than-expected, highlighting the central puzzle of this article and the limits of a purely structural economic argument to predict particular country outcomes. While the "noise" around the best-fit line could be interpreted as randomly generated error, it is necessary to probe further to determine whether other factors may be responsible for such differences.⁷

From a more dynamic, historical perspective, the development of the income tax (and other domestic taxes) in both countries was associated with the process of economic development, but again, most evidence suggests that patterns of economic development across the two countries were very similar. Low levels of tax collections in Brazil and in Southern Africa at the end of the 19th century can easily be explained by the structure of their respective economies: Up until that period, both had been largely rural, nonindustrialized economies, with few easily taxable bases, and without great needs for centrally provided public goods. Most scholars date the onset of industrialization at around 1870 for both countries along with financial windfalls from primary commodities sold on international markets—coffee in the case of Brazil and gold from South Africa. Secondary "infant" industries were established with the protection of high tariffs, particularly beginning in the 1920s and 1930s, and both countries are notable for having achieved exceptional patterns of economic growth, particularly in the 1960s and early 1970s.⁸ Between 1963 and 1972, South Africa's rate of return on invested capital was the highest in the world, and of the capitalist economies, only Japan expanded more rapidly than South Africa.⁹ Brazil's "economic miracle" included rates of economic growth among the highest in the world, with sustained periods of double-digit growth. In both countries, businesses and economic elites reaped significant material rewards from the labor repressive regimes of the mid-1960s and 1970s, and patterns of socioeconomic privilege were reproduced and reinforced. These patterns of development help to explain rapidly increasing needs for public goods. They also gave rise to potentially large and increasingly concentrated income tax bases, lowering the transaction costs of collection in both countries.¹⁰ In short, they explain similarities in taxation outcomes, but not differences.

International Influences

Beyond economic factors, analysts have also emphasized the role of international influences on the development of tax systems.¹¹ Indeed, it is possible to identify the advent of particular sets of taxation policies and administrative practices around the world with particular wars, periods of economic expansion or

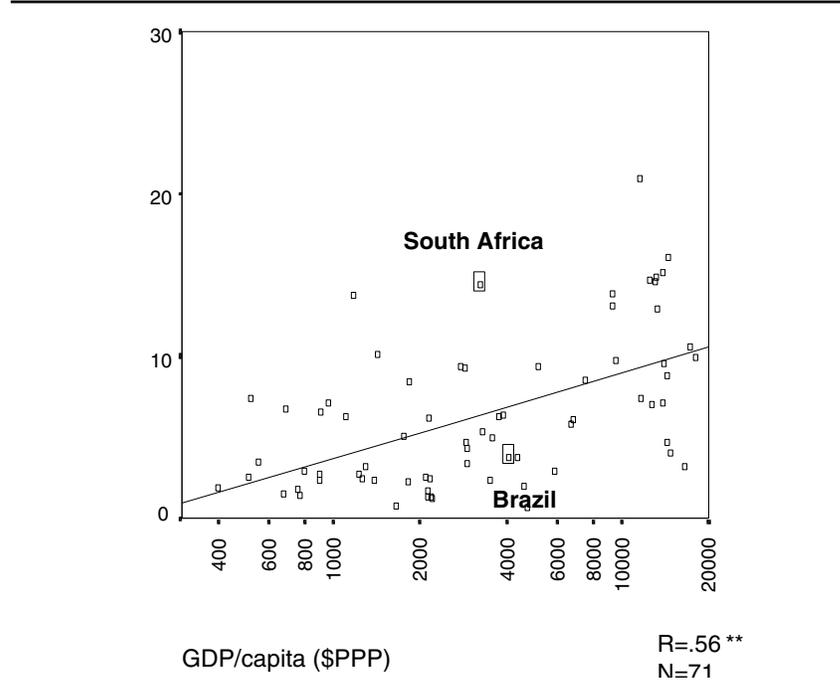


Figure 2. Income and property tax collections plotted as share of GDP/Capita (1990-1994).

Source: World Bank. *World Development Indicators on CD-ROM* (1998).

**Significant at the .01 level.

contraction, and new economic ideas and models. The process of taxation capacity building is ongoing in all states, but punctuated moments of significant political, social, and/or economic change have been responsible for establishing trajectories of over-time development. Such factors have also been important in the adoption and implementation of the income tax in Brazil and South Africa. Both countries were participants in both World Wars, were deeply affected by the Cold War, and were deeply entrenched in the twentieth century state system, as signatory members of the League of Nations and the United Nations. Moreover, as shown in Figure 3, both countries faced a common twentieth century pressure of declining trade revenues. Yet again, the similarity of these influences can help explain only the *similarities* in over-time trends, but these factors do not provide any insights into why levels of collections varied so widely across the two countries.

Cultural Influences

Both in casual and more rigorous analyses, a conventional explanation for cross-national differences in tax policy and tax administration is a theoretical

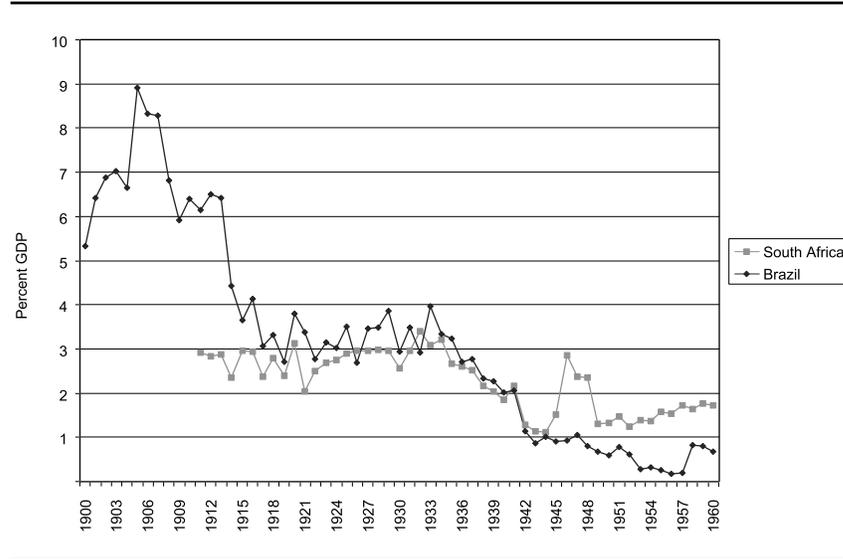


Figure 3. Trade revenues in Brazil and South Africa (1900-1960).

Source: IBGE, *Estatísticas Históricas do Brasil*. South Africa, Bureau of Census and Statistics, *Union Statistics for Fifty Years*.

black box often labeled “culture.” Cultural arguments tend to be resilient because they are so often difficult to prove wrong. Indeed, as a last resort, many analysts of taxation identify cultural differences as the basis for unexplained variations that tend to be sustained across countries over time. Of course, this is a broad, catch-all category with quite varying notions of how to define the concepts, let alone the specification of the causal mechanisms involved.

To evaluate culture as an explanatory variable, it is critical to separate cause and effect. If patterns of taxation are described as tax “cultures,” then culture cannot be said to explain patterns of variation. This would be true by definition. Analysts have observed that across time and space, different norms and practices of taxation develop in particular places. In other words, they argue that the very set of policies and practices which comprise the tax state constitute their own nationally distinctive cultures. Webber and Wildavsky’s discussion of tax systems around the world is an important contribution in its identification of differences in budgetary systems across places and history, but this presentation lacks a true theory of why such patterns emerge in the ways they do.¹² As a result, no testable hypothesis can be derived when culture is defined as the *outcome*.

Nonetheless, two potentially plausible cultural explanations could be marshaled to explain the central differences in the Brazilian and South African tax structures: value orientations and colonial legacies. In both cases, however, apparent covariation between these cultural factors and taxation outputs can be dis-

missed as spurious when considered in over-time comparisons and comparisons with additional country cases.

In the first case, we can assess the degree to which overall cultural systems and dominant sets of values may be associated with the development of the state and economy.¹³ But this poses the thorny question of how to measure culture. Since religious values generally play a central role in the construction of culture, one can usefully contrast these two cases in terms of religious memberships: Brazil is a predominantly Catholic country, and South Africa is not—it is largely Protestant, with a mix of other religions. Following Weber, some have argued that Catholic societies tend to have less effective state capacities than others because the norms of citizenship are far weaker. Yet, various measures of country-level Catholic membership revealed that there is no substantively or statistically significant relationship between that factor and levels of income tax collections, even when controlling for other factors.¹⁴ Such analysis suggests that it is highly unlikely that relatively low income tax collections in Brazil can be explained by its religious culture. More thorough measures of value orientations, such as those conducted by Inglehart and his collaborators in the World Values Study (1995) reveal that in fact Brazil and South Africa are remarkably *similar* in terms of the “key cultural dimensions” of traditional versus secular-rational authority and survival versus material well-being.¹⁵ In the wake of such similarities, we cannot conclude that such conceptions of culture can provide an independent explanation of national patterns of taxation.

As for “colonial legacies,” the South African colonies were governed under British colonial rule, and Brazil was governed under Portuguese rule prior to independence, and again, it is plausible that such differences *could* account for different tax structures, or the early formation of tax policies and administrative practices. If these legacies were truly influential on contemporary patterns of taxation, we would expect to see some identifiable relationship between colonial and postcolonial patterns of taxation. However, there is an unambiguous disjuncture in these patterns on either side of the turn of the twentieth century, when foundational constitutions were written in the two countries. Neither Brazil nor any of the four political entities that would later become the Union of South Africa were able to collect significant sums of direct taxation in the late nineteenth century, and ordinary income taxes never amounted to more than one percent of national income in either country. Instead, the Brazilian emperor and the various colonies and nascent states of Southern Africa relied heavily on trade duties, various indirect taxes and user fees to fund government expenditures. In both countries, several attempts to levy broad-based income and other consumption taxes were rebuked in the face of societal resistance.¹⁶ If anything, central state authority was far more centralized and consolidated in Brazil, where the monarchy had built a centralized tax administration. A central state did not even exist in Southern Africa before the twentieth century, and prior to the formation of Union,

intercolonial competition over revenue sources was at times rather fierce. Again, an explanation emphasizing colonial legacies can hardly account for South Africa's much more successful collections of the income tax in recent years.

State Corruption

A fourth alternative account of variations in revenue collections and structures, and of citizen compliance more generally, focuses on the trustworthiness and credibility of the state executive and the bureaucracy.¹⁷ Specifically, one could hypothesize that the problems of corruption and of the failure to gain the trust of upper-income citizens have been more acute in Brazil than in South Africa, and that this variation explains important differences in the amount of direct income tax revenues collected. Although perceptions of corruption, credibility, and trustworthiness influence taxation outcomes, we gain more analytic leverage if we consider these factors as part of the puzzle that need to be explained, rather than as exogenous determinants of tax compliance and levels of collection.

First, corruption on the part of tax collectors—in particular, the deliberate undervaluation of the tax liabilities of a firm or individual in return for a bribe—is simply one aspect of the outcome under investigation. I assume that most tax collectors are vulnerable to graft, but it is only when citizens actively attempt to evade their tax liabilities that tax collectors engage in such behavior as a regular practice. Tax fraud, whether carried out in partnership with the state's agents or without it, is a phenomenon that is conceptually so proximate to the outcome of measured levels of collection that it is hardly useful to say that the former “explains” the latter. Rather, we can restate the more general puzzle, which is, why is there more tax corruption and less income tax collection in Brazil than in South Africa?

At a deeper level, to assess the arguments posed by Levi and by others who emphasize the influence of “credible commitments” made by government leaders, we need to explore the hypothesis that citizens are less likely to meet their tax obligations quasi-voluntarily if they believe that the national treasury is being pilfered for private or narrow gains. In both Brazil and in South Africa, and certainly in many other societies, the citizens who challenge the state's demands for tax payment in the policy arena or through aggressive avoidance and evasion strategies typically justify their resistance to taxation with the claim that they are not getting a “fair deal,” and that the money is being wasted, either on bad policies, poor implementation, or through outright stealing by individuals in government. At the extreme, when state executives and their agents demonstrate a wanton disregard for public interests, and when virtually no government services are provided, it would be reasonable to predict that citizens will resist tax payments.

When comparing Brazil and South Africa, we can establish that perceptions of corruption *have* covaried in the predicted manner with income tax collections. The best-known attempt to provide a cross-national measure of perceptions of

corruption for more recent years is the Transparency International (TI) survey, for which the earliest available measure is from the period 1980-1985, in which fifty-four countries were compared. On this survey, South Africa scored a 7.35 (rank 20) and Brazil a 4.67 (rank 32) on a 10-point scale, with ten representing the most trustworthy and transparent business environments.¹⁸ In short, this finding implies that the claim that perceptions of corruption among business elites are associated with the state's ability to collect income taxes is a plausible one.

The problem with an explanation that links historically higher levels of income tax collection in South Africa to perceptions of a more trustworthy and less corrupt state is that it too easily suggests that "perceptions" of corruption are tantamount to measuring "actual" corruption. By its very nature, "actual" corruption is virtually impossible to measure at a macro-level scale, and there is no reason to believe that citizens or economic elites have accurate information across countries. Ironically, transparent democratic institutions, such as a free press, may lead the average citizen to perceive higher levels of corruption simply because such information is made available to an extent that is not true in less transparent but potentially more corrupt polities. Certainly, in the cases of Brazil and South Africa, for most of the twentieth century, the respective governments have demonstrated through substantial expenditure projects that the treasury has not been used *exclusively* for the personal gains of government leaders. Massive "modernizing" development projects were carried out in both societies,¹⁹ major infrastructure projects were completed, and in both cases, these largely served the (upper-income) citizens who were liable for the payment of income taxes. In both countries, there exists documented accounts of illegal and corrupt behavior on the part of state leaders as well as of low level bureaucrats, but such anecdotes provide little clue as to the extent to which *actual* corruption has varied across the two countries.²⁰ Neither country has had a profligate dictator like the former Zaire's Sese Seko Mobutu, and particularly during more authoritarian periods, the respective states have been governed by regimes committed, at least to a degree, to the development of professional, "legal-rational" bureaucracies. In short, there is little empirical evidence that can lead us to conclude that a more corrupt or untrustworthy state is to blame for Brazil's relatively weaker record of income tax collections, despite over a century of attempts to increase collections.

If not *actual* state corruption, what can account for cross-national variation in *perceptions* of corruption? As Levi points out, "political and cultural organizations can also affect perceptions of the trustworthiness of government and of the extent of ethical reciprocity."²¹ This suggests the need to look more closely at such factors in comparative perspective. Perceptions of state action on the part of individual²² and collective actors may be largely determined by political context, independent of the goods and services the state actually provides. If we can develop a plausible account of political-institutional variation that leads societal actors to interpret state action in predictable ways, then we will have made corrup-

tion and trustworthiness endogenous variables in the explanation. Such an analytic move is made in the general explanation developed below.

THE INFLUENCE OF NATIONAL POLITICAL
COMMUNITY ON INCOME TAX COLLECTION

This section advances an argument that relates definitions of National Political Community (NPC) to the development of income tax policies and administrative practices. It provides an explanation for the cross-national variation in levels of collections depicted in Figure 1. Comparative-historical analysis reveals how distinctive definitions of NPC affected the organization of class relations and the political interactions that would ultimately produce such different relationships between the state and upper groups in Brazil and South Africa.

The Argument

The logic of the argument is a *critical junctures* model of state development (see Figure 4), which highlights the influence of the period during which definitions of NPC are defined. A critical juncture is a “period of significant change, which occurs in distinct ways in different countries . . . and which is hypothesized to produce distinct legacies,” and which generally follows a period of social, political, and/or economic crisis.²³ The NPC is the group of people who are officially entitled to the rights and responsibilities of citizenship of a particular state.²⁴

As Reinhard Bendix points out, “A core element of nation-building is the codification of the rights and duties of all adults who are classified as citizens. The question is how exclusively or inclusively citizenship is defined.”²⁵ At its core, nationhood constitutes a bounded, political identity tantamount to the notion of a “people.” Given that there is no “natural” or genetic basis for nationhood—as Benedict Anderson points out, they are “imagined communities”²⁶—state leaders must specify rules and definitions of membership. While the process of defining the community may be constantly evolving, at critical moments, truly novel definitions are advanced and accepted in the form of political settlements that become accepted as basic “rules of the game” or institutions within society. In most societies, the written constitution is the most important specification of the NPC, though supplementary policies and legislation may be used to amend the framework laid out in that document.

I argue that the different ways in which groups are either included in or excluded from the NPC explains a great deal of the variation in the development of the tax state. Such inclusions and exclusions influence the cohesion of economic classes and the likelihood that cross-class alliances will get formed. This is because important political institutions such as party systems, employer organizations and unions tend to reflect the structure of the NPC and to allocate power according to the political salience of different groups within society. Depending

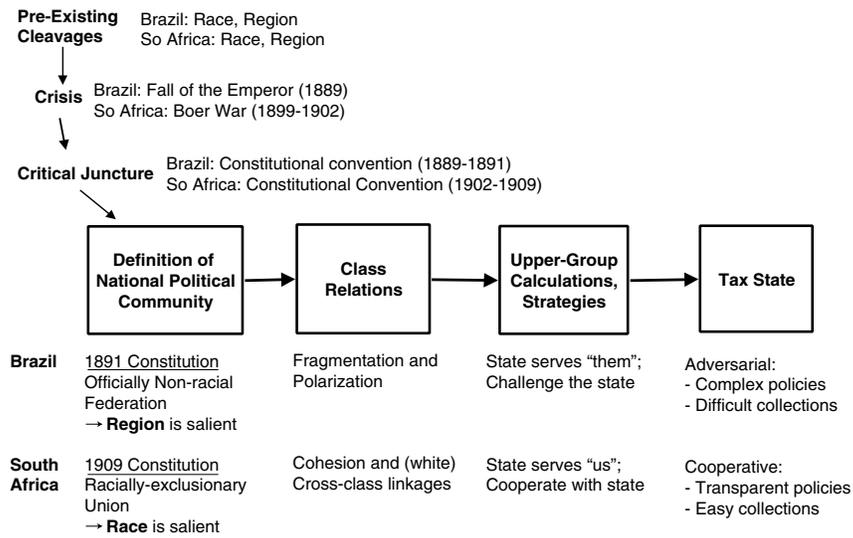


Figure 4. The influence of national political community on the tax state in Brazil and South Africa.

on how groups are included or excluded, the definition of NPC also affects the types of political idioms that are used for making claims about moral obligations and notions of “fairness” and “equity.”

In turn, these political institutions,²⁷ and class relations more generally, frame the calculations and strategies of upper class actors who are largely responsible for paying the income tax in highly unequal societies. Within the public economy, individuals are more willing to pay when they are confident that “our” group will enjoy the benefits of state action. If there is a perception that the state will transfer benefits to “them,” or some other group, or if the barriers to in-group membership are permeable, citizens are less likely to perceive tax payment as a beneficial or rational move. In such cases, they are more likely to either perceive the state as behaving in an unfair or “corrupt” manner, or they are more likely to engage in tax fraud as part of a larger strategy to minimize tax payments. Citizens are more willing to pay if the state can make credible promises that the money will go to “us,” either in the near-term, or to the in-group’s offspring.

When the National Political Community is defined in *exclusionary* terms—that is, when it is explicitly defined in terms of “ins” versus “outs” or in terms of a common group identity versus an excluded group, this leads to higher levels of upper class cohesion. In this case, upper-income actors are much more likely to perceive the state as “our” state, that serves “us,” and they are more likely to cooperate with state demands for taxation at both the policy-making and collections stages. Additionally, exclusion can increase the coherence of lower groups

within the NPC, and such strength provides opportunities to make strong claims for progressive taxation, particularly when lower groups can invoke a shared identity as the basis for a cross-class project.

Alternatively, an *inclusive* definition, which recognizes multiple groups within the political community, tends to create class fragmentation and polarization. In this case, upper-income actors are less likely to perceive their interests as shared with one another. They are more likely to calculate that benefits of state action will go to one of “them,” not to “us,” and as a result, they are more likely to challenge the state’s demand for tax payment with narrowly defined notions of equity and obligation. Inclusive definitions also provide a weaker basis for organization and demand-making from below, and for the development of broad cross-class projects. Together, these factors lead to more tenuous state-society relations, in which the tax state is comprised of more complex policies and less effective administration.

The political legacies of contrasting definitions of NPC run deeply, and at several levels. Over time, organizations and political discourse become institutionalized within society, reproducing the political patterns set in motion by the critical juncture, even in the wake of changing economic and international conditions.²⁸ Once the definition of the NPC has been established by the state, it may become so embedded in the organizations and institutions of the society that it is taken for granted by the individual and collective actors within the polity. Moreover, the early development of the tax state—its policy framework and the bureaucracy’s relationship with society—may become institutionalized to the extent that other factors influence change only at the margins.²⁹ As a result, much of the contemporary variation in cross-national taxation can be explained with a turn toward history, through an identification of the critical juncture, and a comparative analysis of the hypothesized impact on taxation outcomes.

Critical Juncture: Defining National Political Community in Brazil and South Africa

To evaluate this argument in the cases of Brazil and South Africa, it is necessary to identify the periods when modern definitions of NPC were forged in these countries. In the decades surrounding the turn of the twentieth century, Brazilian and South African political elites were presented with historically unique opportunities to codify definitions of NPC. The critical junctures (Brazil: 1889-1991; South Africa: 1902-1909) followed important moments of political crisis. In Brazil, modernizing urban and military groups came to view the imperial government as an anachronism which stifled progress, and following the end of the Paraguayan War (1865-1870), they overthrew the emperor on 15 November 1889. A constituent congress was held, in which each of 20 states and the federal district were represented, and on 24 February 1891, the first Republican constitution was promulgated in Brazil. In Southern Africa, the bloody Anglo-Boer war (1899-1902)

finally came to an end with a surprisingly difficult British victory, and eventually gave way to the 1902 peace Treaty of Vereeniging. After seven years of constitutional conventions and conferences, in which the four former colonies were represented, the South Africa Act was given Royal Assent on 20 September 1909.

During the constitutional conventions in Brazil (1889-1891) and in South Africa (1902-1909), political elites in both countries faced a similar set of questions regarding how to define the NPC. For constitutional planners, legacies of immigration from Europe, Asia, and Africa; slavery; miscegenation; and centuries of internal conflict rendered the project of establishing clear and cohesive criteria for nationhood extremely difficult.³⁰ Specifically, racial and regional cleavages were highly divisive and stood in the face of the very notion of nationhood.

First, racial differentiation had become important in both South Africa and Brazil from the beginning of European contact with the indigenous populations in those countries. As is well known, in the case of South Africa, white supremacy was mobilized as the basis for social and political organization almost from the day the Dutch East India Company representative Jan Van Riebeeck landed at the Cape of Good Hope in 1652.³¹ The conquering of various African populations as part of ongoing European territorial expansion in Southern Africa was legitimized with racial prejudice. Soon after European arrival, the institution of slavery was established at the Cape with slaves taken from Angola, Madagascar, and Mozambique. Although slavery was abolished in 1834, the institution of white supremacy permeated virtually all aspects of social relations in Southern Africa. Similarly, racial conflict in Brazil began when Portuguese immigrants arrived on the South American continent in 1500 and differentiated themselves in racial terms with respect to the sizeable indigenous population. Moreover, approximately 3.5 million slaves³² were brought to Brazil from Africa, an institution whose foundation was located in racial prejudice. Similar to the case of South Africa, in Brazil, "the relationship between race and politics in that country has been a close and integral one. Portuguese state policy made black slavery the very foundation of Brazil's social and economic order during three centuries of colonial rule."³³ "Scientific" ideas about race, imported from Europe, reinforced prejudice and provided a workable political strategy for maintaining social hierarchies in which white minorities rested at the top.³⁴

A parallel set of critical questions for defining NPC in Brazil and South Africa stemmed from the legacies of regional political fault-lines also associated with the colonial past. Regionally based political claims may be advanced by political leaders, when they mobilize a sense of territorially based collective interest and identity, proposing special claims for group rights, often including a degree of political sovereignty. National unity and feelings of commonality are clearly jeopardized by such claims. In Brazil and South Africa, prior regional administrations overlapped with real economic inequalities and cultural differences, providing a basis for serious political competition in the second half of the nineteenth

century. Nothing analogous to Southern Africa's bloody three-year Anglo-Boer war (1899-1902) took place in Brazil, but strong regional identities and the model of state fragmentation within the rest of the South American continent posed stark regional challenges to national unity across vast expanses of Brazil's national territory.

Despite the similarity of these constitutional questions, and the availability of a similar set of options for addressing such questions, elites ultimately constructed very different definitions of NPC (see Table 2). The South Africa Act of 1909 defined it as a *racially exclusionary union*. Although the formal system of *apartheid*, which codified a host of draconian legislation for separating the race groups, was not put in place until four decades after the 1909 constitution was signed, that strategy can be seen as the ultimate extension of original decisions made in the South Africa Act. Blacks had hoped for a more tolerant racial order following the British victory, but "the price of trying to reconcile the whites was paid by the blacks and browns."³⁵ The 1902 signing of the Treaty of Vereeniging, ending three years of bloody warfare marked the beginning of a critical period of smoothing British-Afrikaner antagonism through the idiom of white national unity in what would become the Union of South Africa. The 1909 South Africa Act was highly explicit in its racial codification of citizenship, reserving the privileges and responsibilities of voting and leadership only to those of "European" descent,³⁶ and mandating a five-yearly census which would be the basis of allocating provincial representation on the basis of the number of European (male) adults. In the years following, several acts deepened the original ideas established in the constitution. For example, the 1927 Immorality Act made it illegal to have sexual intercourse across the color line. Meanwhile, the Southern African territory was defined in racial terms, demobilizing "region" as a viable political idiom. The 1913 Natives Land Act restricted the purchase and lease of land by Africans to the reserves, which constituted a mere 7 percent of the land—while this group represented more than 60 percent of the population living in the country at the time.

In response to the question of federalism in South Africa, it was agreed that the "Native question . . . needed to be confronted as a whole by a centralized state capable of pooling all available ideas and implementing them rapidly."³⁷ According to the constitution, the Senate would provide equal representation for provinces of unequal size, but it was to be indirectly elected and weaker in many critical ways.³⁸ Perhaps most importantly, "money bills" (those appropriating or raising revenue) were designated to originate in the House of Assembly and were immune to amendment (but not rejection) from the Senate.³⁹ Provinces would have councils and governors to manage certain internal affairs, but they were to be clearly subordinate to national government. Their status was completely unprotected in the constitution, and in all ways, parliamentary sovereignty was established.

Table 2
Political Cleavages and Definitions of National Political Community in Brazil and South Africa

Cleavage	Definitions of National Political Community	
	Brazil (1891 constitution)	South Africa (1909 constitution)
Race	Official nonracialism	Racial exclusion
Region	Federalism	Unitary system

The Brazilians resolved the question of NPC in virtually the opposite manner, by creating an *officially nonracial federation*. Most prominently, there was no mention of race or racial categories in the constitution,⁴⁰ and as such, no subsequent legal authority was created for allocating resources or political representation based on the size of racial subgroups. In the 1900 and 1920 censuses, no question about race or color was asked.⁴¹ At least in rhetoric, the state committed itself to the integration of Brazilians of various skin colors into a single nation. Indeed, it is critical to point out that race has remained a socially salient category in Brazil up until the present, and persistent race chauvinism in various facets of social and economic life have been at work to maintain a racial hierarchy in terms of economic opportunity and achievement in Brazil.⁴² Yet, as will be described below, the tension between prevailing sentiments of race chauvinism with official state policies prohibiting explicit race-based discrimination has been central to understanding politics in Brazil.

Unlike in South Africa, where provincial powers were carefully enumerated and restricted, in the 1891 Brazilian constitution, the provincial states (*estados*) gained the power, “To exercise in general any and every power or right not denied them by express provision of the constitution or contained by implication in such express provision.” Under this federal constitution, states could form their own military forces, directly elect their own governors, and were responsible for carrying out the fundamental functions of government. Indeed, a few important limitations were placed on state powers, particularly where federal powers were concerned, but this *estado* sphere of government was identified as the one deserving of all “residual” powers, making it appear the most fundamental power of all the government spheres. Unlike the parliamentary sovereignty accorded in South Africa, in Brazil, the federal government was highly restricted in its ability to intervene in state affairs, and all central state powers were enumerated in the constitution. In addition to this autonomy, states gained significant voice within the structure of national decision making. Like in South Africa, the parliament was bicameral, but the Senate had much greater powers—as all bills could originate in either house and could be amended or rejected by either house.

*Mechanism: Class Relations and
Upper-Group Calculations and Strategies*

The critical junctures argument does not imply that once the critical juncture is completed that we should expect a particular type of outcome to materialize immediately. Rather, legacies materialize after a series of intervening steps, and are transmitted through ongoing political processes.⁴³ In particular, the different ways in which the NPC was defined in founding constitutions in Brazil and South Africa around the turn of the twentieth century helped make a particular ascriptive identity highly salient. In turn, those identities structured the development of interclass and intraclass relations through organizational development, political idioms, and the larger political environment in which calculations and strategies would be made.

South Africa's explicit, discursive form of racial exclusion was instrumental in generating high levels of class cohesion. The racial coordination of whites in the political arena, mobilized alongside the notion of a threatening black "other," created a sense of collective interest, transcending regional, sectoral, and linguistic lines, making it easier to solve the free rider problem generally associated with taxation. South Africa's definition of NPC provided an institutional basis for societal organization and strategy. For most of the twentieth century in South Africa, upper groups found themselves linked to one another through national business organizations, such as the Association of Chambers of Commerce (Assocom) and the Chamber of Mines; through strong, national political parties;⁴⁴ and through the idioms of "whiteness," and "Europeanness."⁴⁵ This level of class cohesion facilitated the state executive's ability to strike effective bargains with upper groups by closing off opportunities for narrowly defined groups to make claims for "special interests."

Moreover, the salience of race as a political idiom helped link South Africa's upper groups to lower-income whites, though this relationship was initially characterized by confrontation as much as by cooperation. White workers used race as the basis for high levels of mobilization, and under the banner, "Workers of the world unite and fight for a White South Africa," organized a highly disruptive political challenge in the early decades of the twentieth century culminating with the exceptionally violent Rand Revolt of 1922—which amounted to a small-scale civil war, in which over 1.3 million man days were lost to strike activity.⁴⁶ In the face of such challenges, upper groups were forced to recognize claims to address the "poor White" problem, and the demands of "European Labour." As Arendt observes, "The poor whites in South Africa . . . demanded and were granted charity as the right of a white skin; having lost all consciousness that normally men do not earn a living by the color of their skin."⁴⁷ Employers and other representatives of upper-groups found that it was strategically useful to co-opt this group with inducements in various policy areas.⁴⁸

The combination of intraclass and interclass cohesion provided enormous leverage for the state executive, whose hand was strengthened by “legitimate” claims to represent white interests, and to enact policies that would equalize opportunity and income within the white polity. Upper groups calculated that the state was serving “us,” and elected to cooperate with the state in the construction of policies and in the collection of taxes.

By contrast, Brazil’s officially nonracial federation, which gave significant political salience to regional claims, created the institutional basis for class fragmentation and polarization. Political parties developed as mainly local organizations, and upper-group interests were largely expressed within the framework of the provincial states.⁴⁹ No business organization developed that could articulate a truly national set of business or class interests.⁵⁰ Strong regional idioms, overlapping with race chauvinism, reinforced a sense of intraclass competition. A sense of ethno-regional heterogeneity—the problem that in many ways was “solved” by the mobilization of race in South Africa—was a source of division among upper groups in Brazil.⁵¹ In other words, there was no political “glue” to hold together upper groups in that country, and without explicit forms of political exclusion it appeared more likely that “others” might someday profit from tax payments made to the central state, making the state executive much less able to convince citizens of the collective benefits of tax payment. At the extreme, the period of the First Republic (1889-1930) was marked by a series of attempts at secession by states in the South and Southeast regions, which had continued to develop with strong regional identities and significant political and financial autonomy.

Unlike in South Africa, where race suggested some solidarity between upper- and lower-income whites, in Brazil, the existence of “poor whites” has had virtually no emotive or strategic implications for the white elite. In retrospect, the final acceptance of abolition on the part of large rural landowners depended on a calculation—which turned out to be correct—“that abolition need not endanger their social and economic dominance.”⁵² Because *official* discrimination was made illegal in Brazil, poor whites have been treated simply as “poor,” rather than as “white.” Nevertheless, racial stereotyping and prejudice were perpetuated in Brazil through social institutions and through the state’s deliberate attempts to “whiten” the population through racial mixing, immigration and other policies,⁵³ and inequalities both within and between race groups were tolerated as part of a more “acceptable” socioeconomic hierarchy. Brazil’s definition of NPC established an institutional environment that weakened the ability of lower groups to make *demands* for progressive taxation when compared with South Africa. Although European workers displaced Afro-Brazilians from jobs, and came to Brazil with racist views, in the political context of postabolition Brazil, ideas of white-or European-supremacy could not be used explicitly as a basis for mobilizations from below.⁵⁴ Though workers did stage important strikes in São Paulo and Rio de Janeiro between 1917 and 1920, these did not amount to anything

approximating the challenge advanced in South Africa.⁵⁵ Without an analogous basis for solidarity, Brazilian organized labor was incorporated through far more repressive tactics, including police raids and the jailing of union leaders.⁵⁶ The state laid down the terms of how unions could organize and the extent to which unions were provided opportunities to participate in decision making. Regionalism was a key principle of social control: under the Presidency of Getúlio Vargas (1930-1945), corporatist arrangements divided unions along sectoral lines, creating federations at the state level and confederations at the national level. Even within sectors, the confederations have not been unifying organizations, the manifestation of a blueprint designed to divide the working class. As a result, even with a larger share of unionized workers than in South Africa, Brazilian lower groups have been politically weaker and less successful at making class-based demands for more progressive social policies, including more progressive allocations of the tax burden during the twentieth century.

*Legacy: The Development of the
Income Tax in Brazil and South Africa*

The development of the income tax in Brazil and South Africa during the twentieth century involved a punctuated bargaining process between the state executive and upper-income groups within those societies. The nature of that interaction was strongly influenced by the class relations and associated upper-group calculations and strategies produced by nationally distinctive definitions of NPC, as described above. Although each state executive made broadly similar demands for tax payment in response to similar exogenous pressures, upper-group responses to those demands were quite different across the two countries, both in terms of support for policies during the policy-making process and in terms of levels of “quasi-voluntary” compliance during the collections process. Such responses profoundly influenced the quality of tax policy, tax administration, and ultimately, tax collections. Fragmented and polarized class relations in Brazil led upper groups to repeatedly challenge the state’s demands during the policy-making process and during the process of collection. As a result, an “adversarial” tax state developed, in which the bureaucracy has not been able to uniformly collect taxes from individuals and firms, who engaged in deliberate avoidance and evasion schemes, and noncooperation in the formulation of policy. Coherent class relations among whites in South Africa, by contrast, led analogous upper groups to largely accept the state’s demand for progressive taxes. A “cooperative” tax state emerged, in which the tasks of bureaucrats and policy-makers were largely facilitated by the free exchange of information, and the minimization of challenges to the state’s claim to authority.

Three historical episodes reveal that even in the wake of similar structural conditions, different political logics and patterns of engagement between state and society resulted in very different taxation outcomes (see Table 3). At each junc-

Table 3
The Development of the Income Tax in Brazil and South Africa in the twentieth Century

Exogenous "Shock"	State Initiative	Country Outcomes	
		Brazil (Nonracial Federation)	South Africa (Racially Exclusionary Union)
International acceptance of income tax; WWI	Introduce the general income tax	Slow adoption (33 + 4 years)	Rapid adoption (1 year)
WWII	Increase income tax revenues for war needs (1939-45)	Minor gains in revenue (+1% GDP)	Significant gains in revenue (+6% GDP)
Escalation of the Cold War	Modernize the tax system and increase revenues (1960-75)	Partial modernization	Thoroughgoing modernization

ture, similar exogenous international and economic pressures generated revenue "needs" in both countries, leading the executive to propose new taxes or major tax reforms. During the first decades of the twentieth century, particularly around the First World War, executives acted to adopt a general income tax; during the Second World War, they were prompted to expand and to consolidate the tax to generate additional revenues; and during the 1960s, rapid industrialization and the politics of the Cold War inspired modernizing reforms of the respective tax systems. During each episode, the legacy of the original critical juncture was manifest in the nationally distinctive responses on the part of upper groups, and ultimately, in the content of tax reforms and patterns of collection.⁵⁷

Introduction of the General Income Tax

Internationally, the first three decades of the twentieth century witnessed the adoption of the general income tax around the world. In both Brazil and South Africa, initiatives to develop more modern states, the First World War, and associated changing economic conditions, provided strong incentives to establish this important, progressive tax. The South African Minister of Finance stressed new expenditure demands and the longer-term financial health of the state as the rationale for making demands for income taxation in his 1914 budget speech. Similarly in Brazil, plummeting export prices and trade revenues in 1913,⁵⁸ alongside rapid industrial capital formation, led to renewed initiatives by the Finance Minister for the enactment of a general income tax.⁵⁹ Differing class relations and associated political calculations structured very different responses to these otherwise largely similar demands, however, and the income tax was passed and adopted much more rapidly and efficiently in South Africa than in Brazil.

Brazil's definition of NPC created regional fault lines along which upper-income actors challenged proposals for the new tax. Upper groups resisted its enactment, largely in the name of "unfairness," and regional competition

blocked effective passage for more than three decades after it was first proposed during the constitutional convention. Without the ability to reach consensus on a general, uniformly applied policy, the state selectively taxed income through a series of piecemeal policies, none of which generated significant amounts of revenue.⁶⁰ Even some of these taxes were challenged. For example, the Industrial Center of Brazil in 1919 vehemently protested the imposition of a 3 percent tax on profits and dividends on the manufacturing industry.⁶¹ Despite the persistence of several legislators in the Chamber of Deputies Budget Committee, who believed that the income tax was an appropriately “modern” form of state revenue for the Republican government, sufficient consensus around a general income tax could not be built immediately following the outbreak of war, as several legislators argued that collection would be difficult.⁶² A general income tax on personal and company income was eventually passed through the Chamber of Deputies in 1922, but because of various political objections over detail, it was not even effectively implemented until 1926.⁶³ The compromise tax legislation was complex: Part of the tax was proportional (a flat rate), which differed according to the source of the income, and the other part was progressive on a calculated base of net income with rates ranging from 0.5 percent to 8 percent. The initial law was riddled with exemptions, particularly on agricultural profits and any interest on loans associated with agriculture or extractive industries. Moreover, several proposals to extend the calculation of taxable income were quickly revoked.⁶⁴ Eight different methods of computation were adopted for arriving at taxable income or profits—a complex and potentially leaky basis for calculation even in the early law.

Once enacted, resentment toward the tax was expressed by business leaders and through the expression of regional group interests. The São Paulo newspaper *Folha* argued that the income tax was “absurd,” and predicted, “The income tax is destined to fail. And all the country will profit from this.”⁶⁵ Oliveira Passos of the *Centro Industrial do Brasil*—the organization that would become the *Centro Industrial do Rio de Janeiro*—argued in a 1928 meeting of the organization that the income tax was a tax that should not have been introduced in Brazil, “a new country, an importer of foreign capital and labor. . . . The tax repels capital and can only be properly introduced in countries with excess capital.”⁶⁶ (Similar claims could have been made in South Africa but were not.) Strong resistance to the tax from representatives of such business organizations as well as from (*estado*) state governors, forced the national executive to grant a panoply of regional and sectoral privileges and exemptions.⁶⁷ Not surprisingly, collecting the income tax in this environment proved difficult: in a dispatch to the American State Department, a representative from the American Embassy in Rio de Janeiro wrote, “The collection of income tax is very imperfect, and it is unlikely that a great deal of profit will be shown, were the government to consider the amount spent in administration and the number of individuals and firms who evade payment.”⁶⁸

In the decade that followed the enactment of the income tax, additional political fights ensued over the national government's right to collect the tax, and various legislators proposed that the *estados*—rather than the federal government—should collect at least part of the income tax. Ultimately, under the dictatorial regime of Getúlio Vargas, it was resolved that the income tax—as was standard international practice—would be collected exclusively by the federal government. Nonetheless, amidst the plethora of challenges to payment, early income tax collections were relatively paltry.

By contrast, in South Africa, where upper groups were both ideologically and organizationally unified, there was much less political space to challenge the general income tax during the first years of the Union. Political authority was firmly within the grasp of the Finance Minister, whose South African Party (SAP)—a conciliatory party of Afrikaners and Englishmen—had won 67 of the 121 seats in the National Assembly. Without strongly defined regional party factions, as was the case in Brazil, the parameters of the new tax were not challenged in the name of regional balancing, or the need for greater regional autonomy. It is critical to highlight how surprising such an outcome was from the vantage point of only a few years earlier, as intercolonial relations prior to the formation of the Union had been characterized by sharp economic differences and political conflicts over public finance. Instead, employers and business leaders expressed support for the war and a willingness to sacrifice in financial terms.⁶⁹ The formation of a union, as opposed to the federation that most had expected, had worked quickly to smooth over regional and intraethnic divides within the white polity.⁷⁰

Also important for understanding the enactment of the income tax was the “push” from white lower groups in South Africa. Following the 1913 strike on the Rand, in which white workers challenged the possibility of threats from black competition on the labor market, upper groups calculated the strategic advantages of progressive taxation, and the state recognized the need to create policies that would be seen as benefiting this group. In announcing the income tax, the Minister of Finance argued against the alternatives, explaining, “indirect taxation . . . bears more heavily on the poor man than on the rich.”⁷¹ If sheer numbers alone determined political strategies, lower groups would have been equally influential in Brazil, but it was race-based organization, and solidarity in South Africa that made this collective actor far more influential over the shape of policy.

Once established, South African income tax rates tracked up quickly through the use of income tax surcharges, and by 1922, the top individual income tax rate was 35 percent. Moreover, income tax collections grew rapidly over the course of this period because of the excess profits tax initiated in 1917, which was also accepted quite easily within the business community. This tax was applied on a base of profits that was considered above the “normal” prewar profitability of a firm. The state and business associations generally agreed that no one should

profit disproportionately from the war economy—in which supply was limited and the opportunity for price gouging was great—and that taxation would be the fairest way to redistribute the economic effects of the war within the white population. Although the excess profits tax was slated to be removed six months following the end of the war, in 1919, it was increased to 5 percent of excess profits for “meeting war expenditure.” The “ratcheting” effect that fiscal historians have noted for other contexts certainly characterized this wartime adjustment. In the 1921-1922 Budget, the excess profits tax and special war levies *were* removed—but they were replaced with higher normal rates of tax on companies (7.5 percent instead of 5 percent) amounting to a slight overall increase in the tax rate, and those rates were raised yet again in 1925 to 12.5 percent.

These early proposals and the expressed willingness of upper groups to pay facilitated the development of the tax bureaucracy. By virtually all accounts, the South African state’s efforts to collect the income tax were as successful as treasury officials could have hoped. In a report on the working of the income tax act in its first year, the Commissioner of Taxes reported that projections for numbers of taxpayers and revenues collected were met or surpassed. Even in describing the details of building the bureaucracy, the Commissioner made clear the importance of taxpayer views of the tax as legitimate: “the public as a rule have recognized the need for fresh taxation, and have accepted their liability to contribute towards the country’s requirement.”⁷²

Increases of Income Tax Revenues for War Needs

During the Second World War, state executives in Brazil and South Africa responded to new pressures and opportunities to expand the scope of the state by demanding special “war taxes,” largely in the form of extensions of the general income tax base. Although both states sought similar ends—to increase revenues and to control inflationary pressures—varied class relations and strategic calculations continued to structure very different responses, ultimately producing different outcomes. By the end of the war, South Africa was collecting more than three times what the Brazilian state was collecting in income taxes (7.5 percent of GDP in South Africa compared with 2.2 percent of GDP in Brazil, not including mining revenues). And, South Africa more successfully stemmed the tide of inflation, as the price index grew only 35 percent during the six-year period, compared with 120 percent in Brazil.

The Brazilian state’s relatively much weaker ability to expand income taxation during this period is surprising from the perspective of standard accounts of Brazilian state development. Students of Brazilian politics have long noted that the presidency of Getúlio Vargas (1930-1945) and particularly the seven-year period known as the *Estado Novo* (1937-1945) during which Vargas assumed dictatorial powers, were periods of remarkable expansion of the size and scope of the central

state. From the time of his 1930 installation in the presidency, Vargas sought to achieve a more modern state, less dependent on local influences, and a key policy goal was to increase tax collections to the central state. In fact, the very *tenentistas* (young, modernizing military officers) that helped bring Vargas to power in a 1930 coup d'état argued that budgetary imbalances were "evil,"⁷³ and quite clearly, increased taxation on income was a potential weapon against such deficits. Efforts to collect such taxes were advanced throughout the 15-year presidency. Moreover, the economic conditions were favorable for increased income taxation. Although the pace of economic growth slowed somewhat from the prior period, the economy was still growing and industrializing, and improved terms of trade actually meant a tangible increase in living conditions between 1939-1945.⁷⁴ Industrial production grew at rate of 5.4 percent during 39-45; and several key industries, in particular textiles, expanded during these years because of shortages in world production.⁷⁵ These favorable circumstances, including extremely high coffee prices, led to consistent exchange surpluses, and industrial firms made large profits and accumulated significant reserves.⁷⁶ Undoubtedly, a potentially important "handle" for taxing domestically generated income became available during these years, and as direct taxation was clearly becoming a popular tool around the world, Brazilian finance minister, Octávio Gouvêa de Bulhões, sought to follow suit during the Second World War.

Initiatives to consolidate the authority of the Brazilian central state during this period were consistently thwarted by the reproduction of fragmented class relations. The salience of regional identity, reinforced through employer and other organizations, and through political discourse, could not be easily erased from the political landscape, particularly without a "black threat" or any nationally unifying idiom for upper groups. After seven years in office, the proliferation of competing interests became unmanageable for Vargas, and despite earlier efforts to consolidate and to centralize state power during his first term, he initiated a period of even more extreme political change, arguing that the country must forego the "threatening" aspects of national political competition. With the support of the military, he preempted the scheduled elections of 1938 and initiated a coup d'état in 1937 to retain power, in the defense of national unity and security.⁷⁷ He implemented a dictatorial regime, introducing a new constitution that was centralizing in spirit, and made investments in education and transportation infrastructure to develop a much stronger national identity. Nevertheless, unlike in South Africa, employer organizations remained divided along both state and sectoral lines. Despite the peak-level integration of employer and labor organizations into "confederations," these national organizations remained extremely weak when compared with the state level federations, such as FIRJAN and FIESP, the state-level industrial associations of Rio de Janeiro and São Paulo. Similarly, the urban middle class appeared heterogeneous—"divided in terms of income, social mobility, racial origin and degree of dependence on the regional ruling class."⁷⁸ They also

varied in terms of their alignment with the working classes—more so in Rio de Janeiro and less so in São Paulo.⁷⁹ Moreover, Vargas did not eliminate the power of state political leaders; he merely accommodated them into the framework of the federal bureaucracy.⁸⁰ The prevailing logic of regionalism suggested to South-eastern elites that compliance with central state demands would benefit their Northern counterparts—not benefiting “us,” but “them.”

Within this political context, upper groups again challenged initiatives to raise new taxes. While the state executive deployed its dictatorial powers to declare a series of tax hikes, and “excess profits” taxes to increase revenue and to guard against wartime inflation,⁸¹ upper groups vehemently challenged the “fairness” of these taxes by making special claims to the particular needs and burdens of their states, regions, and sectors. Employer representatives repeatedly traveled to Rio de Janeiro to negotiate “compromises” that effectively diluted the overall burden on firms and high-income individuals. In a telegram to the ministry of finance, the Acting President of the Federation of Commerce of the State of São Paulo complained that the “interested classes” were “overloaded” with taxes. João Daudt D’Oliveira, president of the Federation of Brazilian Business Associations affirmed that, “The news of the recent creation of the tax on extraordinary profits is the source of profound apprehension on the part of the productive classes of São Paulo.”⁸² The negotiations in Rio ultimately produced a complex piece of legislation, with highly arbitrary rules and extremely high thresholds for assessing excess profits, and ultimately, relatively little additional revenue was collected. Moreover, industrialists secured the option to avoid war taxes by purchasing equipment certificates to import capital equipment when international conditions would allow it. Even under a dictatorship, the state executive was still forced to bargain with the leaders of organized business, and in practice, possessed insufficient bargaining power to force significant additional taxation on the diverse business interests of the various Brazilian regions. Through aggressive and often illicit reporting of accounts, high-income individuals and firms further minimized or eliminated their tax burden. At every turn, upper groups resisted the tax burden. Writing in 1946, a frustrated, high-ranking Brazilian tax official described the process of getting taxpayers to pay as a “struggle.”⁸³

During the same period, class relations in South Africa remained highly distinctive from those of Brazil, even though the socioeconomic bases for organization and conflict were rather similar. Like in Brazil, the South African economy was also characterized by profound regional inequalities, and huge disparities of income and wealth. Yet, the political logic of South Africa, which gave low salience to regional identities and sectoral interests, pointed toward relatively much greater cohesion within the white polity, and particularly among the business elite. In 1938, the United Party won an overwhelming victory of the white electorate, claiming 111 of 153 seats in the National Assembly, with a support base that was largely similar to that held by the SAP during the first Parliamentary

election. Although it lost some Afrikaner support in the 1943 election, the United Party maintained a strong majority with eighty-nine seats.⁸⁴ As a result, South African policy-making resembled that of a cohesive, single-party dominant, European parliamentary political system. “Local” concerns were increasingly absent from the national political arena, and political power was increasingly consolidated in the hands of the state executive, limiting the opportunities for narrowly defined groups to make claims with any clout.

In the South African context, the state’s demand for taxation from upper groups went largely unchallenged. Ironically, just as the government promoted the “noble” and “humanitarian” causes of the war, only whites were allowed to join combat units.⁸⁵ Largely English-speaking upper-groups viewed their fate as shared with that of the state and the larger war effort, and the executive was empowered to make demands in broad, collective terms and did not have to appeal to more narrowly defined interests.⁸⁶ In a rousing speech to the Chamber of Commerce, State President Smuts appealed to this sentiment, arguing, “Let us keep alive the spirit of sacrifice,” and emphasized the need for cross-class empathy within the white polity when proposing progressive tax policies.⁸⁷ He pointed to the need to continue using income taxation, even if on a very narrow base of individuals, because this would be more “just” with respect to the economically less well off—at the time a clear euphemism for poor white Afrikaners. The massive 1922 strike, (the “Rand Revolt”) and the Labor Party’s 1924 electoral victory loomed in the minds of employers and high-income individuals as examples of the potential threats of class-based resistance if the white working-class were squeezed too hard in economic terms. In this light, sacrifice benefiting other whites was simultaneously normatively appealing and a strategically rational move that would facilitate the labor peace viewed as necessary for further capitalist development within the country. Although English-speaking upper-income groups expressed more liberal views with respect to the race question, strategic conciliation with white labor prevented significant backtracking on racially exclusionary practices.

With each successive “war budget” presented by the Minister of Finance, tax rates were increased and revenues skyrocketed. By 1941, the top marginal income tax rate for an individual earning over £100,000 was increased to 72.4 percent. In fact, when compared with the USA, Canada, Australia, and Britain, South Africa’s income tax system was considerably *more* progressive in its rate structure.⁸⁸ From all available evidence, it appears that such high rates did *not* induce massive corruption or evasion—a relationship many contemporary tax analysts argue is almost axiomatic. Rather, the response to state demands for taxation was impressive. The President of the Chamber of Mines explained,

The issues at stake, being what they are, require that all that can be done should and must be done. It is from that standpoint that we regard and accept taxation and other measures which, during this time of war, apply to and affect the Mining Industry.⁸⁹

Unlike in Brazil, there was no political space within which more narrow capitalist interests could publicly claim that their burden was truly *unfair*, and taxpayers simply accepted the proposals in a spirit of “grin and bear it.”⁹⁰ Between 1939 and 1945, income tax collections increased by a factor of three. Although consumption taxes increased slightly, as a share of GDP these taxes still only accounted for about 13 percent of total domestic taxation.

Modernization of Tax Systems During the “War on Communism”

A mix of Cold War tensions and rapid economic development implied a host of new administrative and revenue needs that would lead the respective state leaders to initiate a new round of tax reform in the 1960s. Once again, upper groups in the respective countries responded in very different ways to otherwise similar state initiatives to increase their tax burden, shaping very different outcomes. The political idioms of race and region, and their organizational and discursive manifestations, structured the political exchange between strong executives and these economic elites during the process of policy-making and collection. The South African definition of NPC continued to reproduce high levels of class cohesion, facilitating the additional extraction of revenue from upper groups. Between 1960 and 1975, collections of income tax as share of GDP more than doubled, from 4.9 percent of GDP to 11.5 percent of GDP. Efficiency gains in South Africa from modernizing reforms implemented in the early 1960s led to sharp declines in the costs of administration relative to revenue collected to as low as 0.3 percent of collections (compared with costs of 1.0 to 1.4 percent in Brazil.) In Brazil, although a strong military government was able to push through important policy and administrative reforms within a short period of time, the continued salience of regionalism resparked the flame of intraelite competition over the tax burden. Tax incentives proliferated, and compliance rates returned to abysmally low levels, ultimately impeding the state’s ability to collect from those groups. The rate of increase in collections in Brazil was much slower, and from a much lower base during the same period, increasing from just 2.0 to 3.0 percent of GDP.

Initiatives for tax reform in both countries during this period were advanced within the context of massive state-sponsored repression and deliberate attempts to establish more “modern” political orders, with increased bureaucratization of the state.⁹¹ High levels of inequality, when combined with rapid urbanization and industrialization had sowed the seeds of challenge from below during the postwar years.⁹² In both cases, such challenges were struck down with a strong fist: In 1960, the South African state responded violently to a peaceful protest against the pass laws in the township of Sharpeville, and sixty-nine Africans were killed.⁹³ In Brazil, responding to increased political polarization within society, the military seized the reigns of government in a 1964 coup, installing a military leadership that would remain for more than two decades. Thus, in both countries, the early

1960s marked turning points in which the state went to new lengths to impose its authority in the name of anti-Communist rhetoric, taking new powers such as the censoring of information, and the capacity to detain suspects without trial as tools for maintaining “internal security.”

In both countries, tax reform was heralded as an important initiative necessary to modernize the state and the respective capitalist economies. State executives attempted to achieve greater revenue yields, more efficiently, with fewer exemptions and loopholes, and with more modern technologies. During the period since the end of the Second World War, the respective states had offered various tax expenditures to encourage new investment. These included increasingly generous allowances for deducting capital expenditures, and selective exemptions for various types of organizations deemed to be in the public interest.⁹⁴ The accumulation of reform needs combined with concrete political challenges provided state executives specific opportunities to close these loopholes and to make new demands for sacrifice.

Initially, the support of the business sector in both countries was achieved through the idiom of Cold War standoffs that essentially pitted an “Anti-Communist” state against “Communist” segments of society. Rather quickly, however, “Cold War” political conflicts were reinterpreted with preexisting definitions of NPC and associated identities and political idioms, producing different patterns of cooperation and compliance.

In South Africa, Cold War political conflict was interpreted in largely racial terms. Apartheid state leaders articulated a vision in which White South Africa was an anti-Communist bastion within Black Africa, and this frame helped to cement together white interests. Although in South Africa, many business leaders (particularly within the manufacturing and commercial sectors) espoused a mix of pragmatic and truly empathic disdain for the degree to which racial legislation had been codified in South Africa, they did this while accommodating this order, often arguing that they were simply too politically weak to challenge the apartheid system.⁹⁵ Although there was disagreement within the business community concerning its commitment to apartheid, such schisms were not manifest in more narrow sectoral or regional interests that might make the functioning of the tax system a highly politicized affair among whites. As Greenberg points out, soon after Sharpeville, commercial interests explicitly engaged the National Party government with words like, “accommodation,” “trusted partners,” and “cooperation.”⁹⁶ White South Africans found themselves more unified than ever before, particularly as the “poor White” problem was being stamped out, and the state found it could count on business leaders to share the responsibility of defending the country against Communism. The glue of racial identity helped weld together potentially conflicting ethnic, regional, and sectoral interests.⁹⁷ Moreover, apartheid legislation and strategies reinforced the degree to which physical space or territory became politically meaningful in *racial* terms. The regulation of the move-

ment of black people into and out of “white” areas, and the creation of a homeland system further widened the gap between white and black, further minimizing perceived regional differences within white areas, and closing out the possibility for cross-racial alliances within regions.

The war on Communism was also advanced in Brazil as a way of legitimizing the state and its repressive policies, but internal political cleavages that had divided the economic elite in previous years were rearticulated only a few years after the military coup of 1964. A parochial logic soon crept in to the politics of taxation, as regional patterns of business organization, and discourse surrounding distributive politics led to intraelite conflicts. Political power bases remained at this level, and even the centralizing military government still relied heavily on governors and other state (*estado*) elites to carry out its policies.⁹⁸ Moreover, racial inequalities and race chauvinism played a very different role than in South Africa as these factors served to further undermine collective solidarity in Brazil. Officially, Brazilians sought to build on the idea of racial tolerance. Gilberto Freyre, a leading Sociologist and social commentator who became closely tied to the Brazilian nation-building project argued that anyone who challenged the notion of a racial democracy was Communist and anti-Brazilian—again, exactly the opposite configuration of race and nation when compared with South Africa’s state policies. In this vein, the military government went on to declare as subversive the research of several scholars exposing racial inequality and discrimination in the country.⁹⁹ Nevertheless, survey research and anthropological research have identified the existence of pervasive race chauvinism and racial inequalities pervading Brazil during this period.¹⁰⁰ Together, the state’s definition of the NPC and pervasive race chauvinism emerged as contradictory forces, undermining collective solidarity. In a society that prided itself in being a “racial democracy,” the only acceptable channel for expressing prejudices and feelings of difference continued to be the regionalist discourse that pitted the wealthy South and Southeast against the poorer North and Northeastern states.

The varied salience of political identities was instrumental in reproducing nationally distinctive sets of class relations, which in turn affected the calculations and strategies of upper groups responding to state demands for tax reform and additional revenue.

White, upper groups in South Africa reasoned that the state was advancing common class interests, particularly with its war on Communism. For example, the chief economist of one of the country’s leading industrial holding companies recalled in an interview that his firm was insistent on cooperation and compliance when it came to paying taxes, because the objectives of the firm and the government were basically the same, and that they needed one another.¹⁰¹ Another leading businessman from a different firm in a different region recalled with respect to the state demands, “We were fighting a war in those days and we had to pay for this war to keep the Communists out, and the good citizens didn’t mind paying for

that. It was a sort of conscience money to a certain extent.”¹⁰² South African business leaders either actively engaged the state as a partner, or at the very least, did not challenge its legitimacy as the dominant political authority in the country. The state managed to increase tax rates, particularly on top earners, and to remove dated tax incentives when necessary without significant political repercussions.

The state also enjoyed high levels of cooperation during the collections process. Beginning in April 1962, the Data Processing Section of the Department of Inland Revenue installed a computer system to calculate and issue assessments, to record payments, and maintain controls. Government reports of the 1960s and the 1980s both reflected on the enormous efficiencies gained from the installation of such equipment.¹⁰³ A withholding pay-as-you-earn system (PAYE) of tax collection was implemented in 1963, making employers responsible for withholding taxes on a regular basis from employee paychecks. South African companies accepted the extra administrative burdens associated with such reforms, reflecting a long-standing pattern of recognizing the state’s initiatives as ultimately serving the collective interest. For example, the Commissioner of Inland Revenue wrote in his March 1964 report,

The PAYE scheme, which has been under way now for some months, has had its inevitable crop of teething troubles but the indications are that it has been well received on all sides and has the full support of the overwhelming majority of taxpayers.

In Brazil, certain reforms *were* initially successfully implemented following the 1964 coup. First, the government centralized tax collection. Delfim Netto, the Minister of Finance who orchestrated the centralizing project of the military period, had argued for a much greater level of centralization and more uniform application of the tax system throughout the country.¹⁰⁴ The Brazilian government initiated multiple reforms to modernize its tax administration. Most importantly, this involved cracking down on tax fraud. During the Castello Branco regime, the tax authorities automated record keeping and prosecuted delinquents with much tougher inflation-adjusted fines. Such measures helped to increase the real yield of taxes by 34 percent between 1963-1966.¹⁰⁵ Also, in 1968, the old tax revenue administration was reconstituted as the *Secretaria da Receita Federal* (SRF) and began to employ more modern organizational structures and more sophisticated information technologies. As part of these reforms, between 1965 and 1969, the number of federal income tax payers rose from 400,000 to 1.5 million.¹⁰⁶

However, the benefits of the initial reforms were short-lived. Particularly after 1974, with the more moderate political approach of President Ernesto Geisel, it became evident that without a clearly defined Communist “other,” Brazilian business did not have anything analogous to the racial “glue” that bound together upper groups in South Africa, and support for the authoritarian regime was more pragmatic than ideological.¹⁰⁷ Despite the need for reform, and the presence of

highly skilled technocrats and advisors—arguably far more skilled and better trained than in the South African case—state-level elites reclaimed their powerful position relative to the soft-line military government of the 1970s, which was loosening its control on electoral outcomes.¹⁰⁸ Netto argues that early successes in achieving state reform were quickly derailed with regional political challenges that undercut the military's claim to embody the goals of the entire nation.¹⁰⁹ In particular, Southern and Southeastern elites complained of a loss of autonomy, reflecting their desire to maintain higher levels of economic resources in their own regions.¹¹⁰ In response to such pressures, the executive granted various regional and sectoral tax incentives during this period, reducing the efficiency and progressivity of the income tax as well as other tax bases, and in turn, these factors led to higher deficits, inflation, and slowed growth.¹¹¹ Given the breaks received by corporate taxpayers and the numerous exemptions that could be claimed by high-income earners, let alone the evasion of self-employed professionals, the income tax fell mainly on the middle class and sectors of better-off workers.¹¹² Finally, in the wake of multiple conflicts and challenges over how the burden should be allocated, upper groups became increasingly less compliant during the process of collection, and new levels of avoidance and evasion were practiced by the mid-1970s.¹¹³

CONCLUSION

This comparative historical analysis of the rise of the income tax in Brazil and South Africa provides substantial insights into the varied trajectories of twentieth century state-building: Economic, international, and cultural factors, as well as a focus on corruption within the state, provided limited explanatory power for understanding the roots of cross-national variation. Rather, the central finding is that definitions of National Political Community were ultimately responsible for substantial differences in the development of national income tax policies and administrative practices. The relative salience of racial and regional identities in South Africa and Brazil framed political competition within and across economic classes, creating incentives and disincentives for upper groups to comply with demands for tax payment. Across three distinctive time periods, during which different external factors motivated state initiatives for tax reform, nationally distinctive political institutions shaped political responses and outcomes in increasingly predictable ways.

While both countries underwent democratic transitions in the 1980s and 1990s, the legacies of tax state development inherited from the first three-quarters of the century were very different and continued to influence collections during the democratic era (see Figure 1). In South Africa, the most important source of tax revenue continued to come from direct taxes on income, levied at highly progressive rates, and ultimately paid by a very small minority of the population—

mostly by “middle class” and wealthy whites. By contrast, in Brazil, although the relative size of the state in the economy was approximately similar, the total tax burden was spread out over a much wider array of taxes, and only a very small portion came from direct income taxes, and levied at much less progressive rates.¹¹⁴ In other words, political contests fought out in much earlier periods largely determined the types of tax systems that were inherited in these highly unequal, recently democratized societies. Given important political changes in South Africa, including the promulgation of a nonracial constitution, there is good reason to believe that upper-income whites will resist payment in the future—and there is good reason to believe that many are trying—but they must resist a well-institutionalized tax system that has managed to collect significant amounts of information and has developed effective rules and procedures for collection during almost a century of state-building.

The comparative analysis has revealed that even when race and control of material resources are highly correlated, upper groups do not always perceive their interests as shared—an observation that is sometimes taken for granted when analyzing politics in societies where race is highly salient, such as in the United States and South Africa. Rather, as was demonstrated above, a largely white economic elite in Brazil did *not* solve the collective action problem of taxation because the more salient regional identity was ultimately a source of division. The South African case reveals the willingness of high-income whites across diverse regions to pay quite a bit in income tax to maintain a coalition with one another and with lower income whites. Through such a coalition, the “poor white” problem was largely solved in South Africa. Yet, it is important to recognize that the willingness of upper-income whites to pay this bill must be regarded as an historically contingent outcome in light of the Brazilian evidence.¹¹⁵ It was only in the context of a socially constructed black “other” that whites in South Africa were willing to pool their resources in the public economy, foregoing the possibility of shifting the tax burden downwards or horizontally through interregional political competition. The legacy of such different patterns of state-building is highly ironic: Today, low-income blacks in South Africa benefit from the progressive income tax that was developed in the wake of this history of deliberate racial exclusion. By contrast, their poor, black Brazilian counterparts continue to face a far more regressive tax system.

These findings are suggestive for a broader understanding of the relationship between institutions, identities, and their impact on state development. Specifically, the analysis highlights an important example of “path dependency” in the process of state-building, as early divergences in the specification of national constitutions set states on quite different trajectories, making subsequent convergence on policies and policy outcomes enormously difficult, even when other circumstances and pressures were highly similar. Looking beyond Brazil and South Africa, the argument could be extended to make sense of other country cases, but

within limits. The impact of varied definitions of NPC as described above are relevant only for other cases in which the *problems* of racial and regional heterogeneity have been historically relevant—namely, the “fragment societies” identified by Hartz.¹¹⁶ The impact of exclusionary and inclusionary definitions of NPC could be applied more generally, but to do so, it would be necessary to reconceptualize possible categories of variation with reference to specific potential “insiders” and “outsiders.” Because the notion of a critical juncture is useful only in a structured, comparative analysis, it would also be necessary to specify a group of country cases that share a set of historical circumstances in many of the ways that characterize the comparison between Brazil and South Africa. The argument about federalism applies more widely and helps to explain why countries such as Switzerland and India collect relatively less income tax revenue than other countries at similar levels of economic development.

At a more general level, the article demonstrates that negotiated definitions of political community shaped the logic of interclass and intraclass relations in turn affecting the ability of the state executive to gain the cooperation of economically powerful groups. In other words, the authority and efficacy of the modern state is strongly influenced by how group identities get constructed and institutionalized within the political arena.

NOTES

1. Margaret Levi describes this form of compliance as “voluntary” because taxpayers choose to pay. It is *quasi*-voluntary because the noncompliant are subject to coercion—if they are caught.” Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988), 52.

2. As Joel Migdal points out, a central focus of analysis of the state is concerned with the “yawning gap between state rhetoric and performance.” Joel Migdal, “Studying the State,” in Marc Lichbach and Alan Zuckerman, eds., *Comparative Politics* (Cambridge, UK: Cambridge University Press, 1997), 211. The notion that state finances are reflective of larger patterns of state development is a central tenet of fiscal sociology. See, for example, Rudolf Goldscheid, “A Sociological Approach to Problems of Public Finance,” in Richard Musgrave and Alan T. Peacock, eds., *Classics in the Theory of Public Finance*, (London: Macmillan, 1964).

3. Joseph A. Schumpeter, “The Crisis of the Tax State,” in *International Economic Papers, Number 4*, ed. Alan T. Peacock and et. al. (London: Macmillan, 1954).

4. See, for example, Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton, New Jersey: Princeton University Press, 1975). Vito Tanzi, “Quantitative Characteristics of the Tax Systems of Developing Countries,” in David Newberry and Nicholas Stern, eds., *The Theory of Taxation for Developing Countries*, (Washington, DC: Oxford University Press, 1987), 205-241. Harley H. Hinrichs and Harvard University International Program in Taxation, *A General Theory of Tax Structure Change During Economic Development* (Cambridge, MA: Law School of Harvard University, 1966).

5. Income and property taxes are reported together in the World Bank dataset because they both tend to be direct, progressive taxes. In most countries, including Brazil and South Africa, the property tax is an insignificant source of revenue at the national level.

6. Excludes oil-exporting, and former Communist countries, and countries with populations of less than 1 million because income tax collections likely reflect different types of political and administrative solutions in these countries. Nonetheless, the correlation remains moderately strong (above .50) even when these countries are included and for other time periods.

7. Other “economic” variables, such as levels of trade, or agricultural share of value-added, provide no significant additional explanatory power in multivariate regression analyses.

8. In this sense, the South African economy developed with a strategy that was quite similar to that used in Brazil and elsewhere in Latin America. See, for example, Victor Bulmer-Thomas, *The Economic History of Latin America Since Independence* (New York: Cambridge University Press, 1994). For the South African case, see Stuart Jones and Andre Muller, *South African Economy, 1910-90* (New York: St. Martin’s Press, 1992), and N. Nattrass and E. Ardington, eds., *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990).

9. Dan O’Meara, *Volkskaapitalisme: Class, Capital and Ideology in the Development of Afrikaner Nationalism, 1934-1948* (Johannesburg: Ravan Press, 1983), 247.

10. Levi, *Of Rule and Revenue*.

11. For a discussion of the influence of “emergencies” on the development of the American tax system, see W. Elliot Brownlee, *Federal Taxation in America: A Short History* (New York: Cambridge University Press, 1996). See also, Sven Steinmo, *Taxation and Democracy* (New Haven, Conn.: Yale University Press, 1993), and Levi, *Of Rule and Revenue*.

12. Carolyn Webber and Aaron B. Wildavsky, *A History of Taxation and Expenditure in the Western World* (New York: Simon and Schuster, 1986). See also various references to “culture” in Newbery and Stern, *The Theory of Taxation for Developing Countries*.

13. In extensive field research, I have found this hypothesis to be the most dominant “folk theorem” of cross-national variation in tax structures. Inglehart advances a variant of this argument in his various reports of the World Values Survey. See, for example, Ronald Inglehart and Marita Carballo, “Does Latin America Exist? (And is There a Confucian Culture?): A Global Analysis of Cross-Cultural Differences,” *PS: Political Science and Politics*, no. March 1997 (1997): 34-47; and Ronald Inglehart, *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies* (Princeton, NJ: Princeton University Press, 1997).

14. The Pearson’s correlation between “Catholics as Percent of Population,” and “Income and Property taxes as share of GDP” was $R = -.128$, $p = .42$.

15. Inglehart, *Modernization and Postmodernization*, 45.

16. Gilberto de Ulhôa Canto, “Study of the Brazilian Tax System in View of the Federal Regime,” *Bulletin for International Fiscal Documentation* 3, no. 49 (1949), 72-104. Maria Valéria Junho Penna, “The Formation of the Tax State in Brazil: The Genesis of Income Tax,” *Textos Para Discussão no. 281* (Rio de Janeiro: Instituto de Economia Industrial, Universidade Federal do Rio de Janeiro, 1992). Ministério da Fazenda, *Imposto de Renda: 60 Anos No Desenvolvimento* (Rio de Janeiro: Ministério da Fazenda, 1982). Thomas Pakenham, *The Boer War* (London: Futura, 1988). Marius Cloete Van Blerck, *Mining Tax in South Africa* (Rivonia, South Africa: Taxfax CC, 1992), C-2. Leonard Thompson, *The Unification of South Africa 1902-1910* (London: Oxford University Press, 1960), 13. Thomas E. Skidmore, *Brazil: Five Centuries of Change, Latin American Histories* (New York: Oxford University Press, 1999), 47. Dauril Alden, *Royal Government in Colonial Brazil* (Berkeley and Los Angeles: University of California Press, 1968).

17. In particular, see Levi, *Of Rule and Revenue*, and Margaret Levi, *Consent, Dissent, and Patriotism* (New York: Cambridge University Press, 1997).

18. This measure is itself a dubious indicator of perceptions of corruption, as it represents the results of evaluations by staff of the American-based political risk service of the, "likeliness to demand special and illegal payments in high and low levels of government." Nonetheless, these findings resonate with my own extensive interviews with Brazilian and South African business elites which suggest that historically, Brazilians have perceived state corruption as a much greater problem than the South Africans have.

19. Though in both cases, with tragic consequences for human development. See the discussions of these projects as described by James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven, Conn.: Yale University Press, 1998).

20. To date, there has been no scandal in South Africa which has been widely recognized as evidence of "corruption" that can equal the 1992 resignation of Brazilian President Fernando Collor de Melo in the wake of impeachment proceedings prompted by corrupt behavior. However, not only did this event follow the period under primary investigation in this article, but it was largely hailed as a triumph of democracy because of the demonstrated ability of a system of due process to weed out such behavior. In South Africa, the Truth and Reconciliation Commission has uncovered examples of massive abuse of power during the apartheid era, in which various state actions constituted crimes against humanity. Other recent research suggests that between 1948 and 1990, government contracts were regularly awarded on a nepotistic basis, rather than on the basis of merit. See, Chris Heymans and Barbara Lipiez, "Corruption and Development: Some Perspectives," *Institute for Security Studies Monograph no. 40* (<http://www.iss.co.za/Pubs/MONOGRAPHS/40/Corruptiondevelopment.html>, 1999).

21. Levi, *Consent, Dissent, and Patriotism*, 27.

22. As I have shown elsewhere, individual perceptions of getting a "fair deal" and of their inclinations to comply with tax obligations are strongly influenced by their level of agreement with the definition NPC. Evan Lieberman, "Through Rainbow-Tinted Glasses: How South African Citizens Evaluate Their Economic Obligations to the State," *Journal of Development Studies* (forthcoming).

23. Ruth Berins Collier and David Collier, *Shaping the Political Arena* (Princeton: Princeton University Press, 1991), 29.

24. Thus, in my lexicon, a nation may exist independently of a state, but the National Political Community is the state-sponsored definition, which reflects its attempt to structure the membership of the nation.

25. Reinhard Bendix, *Nation Building and Citizenship: Studies of Our Changing Social Order* (New York: Wiley, 1964), 90.

26. Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 1996).

27. This argument reflects an attempt to extend the core logic of historical institutional analysis outside the institutional environment of the advanced, industrialized countries, generally characterized by stable democratic institutions. The paradigmatic example of this work for the area of taxation is Steinmo, *Taxation and Democracy*.

28. For more general discussion of path dependency, see Kathleen Thelen, "Historical Institutionalism in Comparative Politics," *Annual Review of Political Science* 2 (1999): 369-404; Paul Pierson and Theda Skocpol, "Why History Matters," *APSA-CP Newsletter* 10, no. 1 (1999): 29-31; Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* 94, no. 2 (2000): 251-267. The para-

digmatic example of this work is Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon, 1966).

29. A similar argument about the staying power of tax regimes is made in Edward Ames and Richard T. Rapp, "The Birth and Death of Taxes," *Journal of Economic History* 37, no. 1 (1977): 161-178.

30. Louis Hartz describes both Brazil and South Africa as "European fragment" societies. Louis Hartz, *The Founding of New Societies: Studies in the History of the United States, Latin America, South Africa, Canada, and Australia* (New York: Harcourt Brace & World, 1964).

31. See, for example, Richard Elphick and Hermann Giliomee, eds., *The Shaping of South African Society, 1652-1820* (Middletown, CT: Wesleyan University Press, 1989), and George M. Fredrickson, *White Supremacy: A Comparative Study in American and South African History* (New York: Oxford University Press, 1982), for two of the best historical accounts of the early manifestations of white supremacy in Southern Africa.

32. Anthony Marx, *Making Race and Nation* (Cambridge: Cambridge University Press, 1998), 49.

33. George Reid Andrews, "Black Political Protest in São Paulo, 1888-1988," *Journal of Latin American Studies* 24 (1992): 147-171.

34. The 1911 South African census reported that 21 percent of the population was white, while the 1872 Brazilian census cited 38 percent white. Indeed, a much higher degree of "mixing" had taken place in Brazil, producing a relatively much larger mulatto population (only one-third of the nonwhite population in Brazil was counted as "pure" black, while more than 80 percent of the nonwhite population in South Africa was considered "Black" or "African"). South Africa Bureau of Census and Statistics, *Union statistics for Fifty Years, 1910-1960* (Pretoria, Union of South Africa: 1960). Fundação Instituto Brasileiro de Geografia e Estatísticas—IBGE, *Estatísticas Históricas do Brasil: Series Econômicas, Demográficas e Sociais de 1550 a 1988* (Rio de Janeiro, Brazil: IBGE, 1990). Since all of these categories are socially constructed without any clear scientific divide, the categories and criteria for racial group membership are arbitrary and vary over time. See Andrews, "Black Political Protest," and Cleusa Turra and Gustavo Venturi, eds., *Racismo Cordial* (São Paulo: Editora Ática, 1995), for a discussion of these labels.

35. Pakenham, *The Boer War*, 576.

36. Only in the Cape Province, where blacks previously had been allowed to vote, was the franchise initially afforded on a nonracial basis. In 1934, African voters from the Cape were removed from the voters' role, and in 1948, the remaining Coloured voters from the Cape were removed from the voter role.

37. John Cell, *The Highest Stage of White Supremacy: The Origins of Segregation in South Africa and the American South* (Cambridge Cambridgeshire; New York: Cambridge University Press, 1982), 64.

38. In administrative terms, the Union of South Africa was a federal government, characterized by three "tiers" of government (and a parallel native administration). In political terms, however, it was still a unitary state because subnational tiers were afforded very little say in decision making and virtually no autonomy.

39. Thompson, *The Unification of South Africa*, 243.

40. In the first two decades of the Republic, a proposal to establish a formal color-bar was debated in the parliament and ultimately rejected. Marx, *Making Race and Nation*, 166.

41. Melissa Nobles, *Shades of Citizenship: Race and the Census in Modern Politics* (Stanford, CA: Stanford University Press, 2000), 104.

42. See, for example, Thomas E. Skidmore, *Black into White: Race and Nationality in Brazilian Thought* (Durham: Duke University Press, 1995). Gay Seidman, *Manufacturing Militance: Workers' Movements in Brazil and South Africa 1970-85* (Berkeley, California: University of California Press, 1994), 22.

43. Collier and Collier, *Shaping the Political Arena*, 31.

44. For example, between 1910 and 1961, the top two parties secured more than 63 percent of the seats in the parliament, and on average, the top two parties secured a full 88 percent of the seats. Author analysis of election returns from TRH Davenport, *South Africa: A Modern History* (Toronto: University of Toronto Press, 1991), 564-65.

45. White supremacy surely reaped concrete material gains for capital interests across sectors. "The alliance of gold and maize"—the cooperative arrangements between mining magnates and commercial farmers—helped to maintain institutions that provided a steady stream of cheap labor: the large black population living in the region, yet deprived of the rights of citizenship. See, Cell, *The Highest Stage*, 63.

46. South Africa. Bureau of Census and Statistics, *Union Statistics*.

47. Hannah Arendt, *The Origins of Totalitarianism* (USA: Harcourt, Brace, Jovanovich, 1979), 194.

48. Robert Davies et al., "Class Struggle and the Periodisation of the State in South Africa," *Review of African Political Economy* 7, (Sept-Dec 1976), 11. The best discussion of the incorporation of white labor in South Africa is, David Yudelman, *The Emergence of Modern South Africa: State, Capital, and the Incorporation of Organized Labor on the South African Gold Fields, 1902-1939* (Westport, Conn.: Greenwood Press, 1983).

49. Boris Fausto, "Brazil: The Social and Political Structure of the First Republic," in Leslie Bethell, ed., *The Cambridge History of Latin America* (Cambridge: Cambridge University Press), 788.

50. See Fernando Luiz Abrucio, *Os Barões da Federação: Os Governadores e a Redemocratização Brasileira* (São Paulo: Editora Hucitec, 1998), 35-41. Virtually all studies have concluded that the corporatist organization, the National Confederation of Industries (CNI) has been neither powerful, nor able to broadly represent national business interests in Brazil. Philippe Schmitter, *Interest Conflict and Political Change in Brazil* (Stanford, CA: Stanford University Press, 1971). Nathaniel Leff, *Economic Policy Making and Development in Brazil 1947-64* (New York: John Wiley, 1968). Leigh A. Payne, *Brazilian Industrialists and Democratic Change* (Baltimore: Johns Hopkins University Press, 1994).

51. Leff, *Economic Policy Making*, 116.

52. Skidmore, *Black into White*, 39.

53. Brazil's bizarre strategy for addressing the racial problem involved the promotion of miscegenation to achieve a "whiter" population. Skidmore, *Black Into White*, 173.

54. In fact, as Andrews argues, the strategy was quite the opposite: "Acutely aware of the tactical opportunities which an ethnically and racially divided working class offered to employers and the state, and inspired by the egalitarian doctrines of socialism, anarchism, and anarchosyndicalism, labor organizers repeatedly invoked the goal of eliminating such divisions." George Reid Andrews, *Blacks & Whites in São Paulo, Brazil, 1888-1988* (Madison, Wis.: University of Wisconsin Press, 1991), 61.

55. Fausto, "Brazil: The Social and Political Structure," 810-11.

56. Seidman, *Manufacturing Militance*. Collier and Collier, *Shaping the Political Arena*, 186.

57. To be clear analytically: During all three periods, the key explanatory variable, the definition of NPC remains unchanged; each period is marked by a distinct change in a "background" explanatory variable; and the outcomes, measured in terms of tax policy,

administration, and collections are compared in terms of similarities and differences in over-time change. For a discussion of strategies for causal inference in Historical Institutionalism see, Evan Lieberman, "Causal Inference in Historical Institutional Analysis: A Specification of Periodization Strategies," *Comparative Political Studies* 34, no. 9 (November 2001), 1011-1035.

58. Annibal V. Villela and Wilson Suzigan, *Government Policy and the Economic Growth of Brazil, 1889-1945*, *Brazilian Economic Studies* no. 3 (Rio de Janeiro: Instituto de Planejamento Econômico e Social/ Instituto de Pesquisas (INPES), 1977), 95.

59. In fact, as early as 1889, during the Brazilian constitutional convention, the idea of a general income tax had been raised and proposed within legislative meetings and in the broader public arena. Penna, "The Formation of the Tax State in Brazil," 31.

60. Benedito Ferreira, *Legislação Tributária: A História da Tributação no Brasil* (Brasília: Senado Federal, Centro Grafico, 1986), 74-5.

61. Penna, "The Formation of the Tax State in Brazil," 40.

62. *Ibid.*, 36.

63. Alcides Jorge Costa, "História do Direito Tributário," in *Revista Especial do Tribunal Regional Federal* (São Paulo: Imprensa Oficial do Estado, 1995), 45.

64. Escola de Administração Fazendária (ESAF), *Sistema Tributário: Características Gerais, Tendências Internacionais e Administração* (Brasília: Secretaria da Receita Federal, 1994), 44-45.

65. *Folha de São Paulo* (19 October 1926).

66. Edgard Carone, *O Centro Industrial do Rio de Janeiro e Sua Importante Participação na Economia Nacional, 1827-1977*, (Rio de Janeiro: Centro Industrial do Rio de Janeiro, 1978), 97.

67. *Ibid.* Penna, "The Formation of the Tax State in Brazil," 41. Villela and Suzigan, *Government Policy and the Economic Growth of Brazil*, 285-6.

68. "Course of Legislation: Income Tax Law," Declassified letter from the American Embassy, Rio de Janeiro, dates 29 May 1926. Published on Microfilm Reel 31 of United States. Dept. of State., *Records of the Department of State Relating to the Internal Affairs of Brazil*.

69. In particular, very supportive statements for the new taxes were articulated in the meetings of the Associated Chambers of Commerce and Chamber of Mines.

70. Thompson, *The Unification of South Africa*. Marx, *Making Race and Nation*.

71. Budget Speech, Union of South Africa. *House of Assembly Debates* (24 April 1914), 1936.

72. JB Moffat, "Report on the Working of the Income Tax Act, 1914, for the Year ended 30th June, 1915," (Pretoria: Union of South Africa, 1915).

73. Fausto, "Brazil: The Social and Political Structure," 815.

74. Villela and Suzigan, *Government Policy and the Economic Growth of Brazil*, 174.

75. Werner Baer, *The Brazilian Economy: Growth and Development* (Westport: Praeger Publishers, 1995), 38-40. Villela and Suzigan, *Government Policy and the Economic Growth of Brazil*, 167.

76. *Ibid.*, 181.

77. Thomas Skidmore, *Politics in Brazil, 1930-1964* (New York: Oxford University Press, 1967), 30.

78. Fausto, "Brazil: The Social and Political Structure," 807.

79. *Ibid.*, 808.

80. See Abrucio, *Os Barões da Federação*, 46-8, for a discussion of the corporatist-federative arrangements of the *Estado Novo*.

81. Canto, "Study of the Brazilian Tax System," 70. ESAF, *Sistema Tributário*, 49.

82. "Associação Comercial de São Paulo," *O Estado de São Paulo* (6 January 1944), 2.

83. Valentim F. Bouças, "Os Tributos e sua Arrecadação em Face da Constituição," *Boletim do Conselho Técnico de Economia e Finanças*, no. 68-9 (1946): 4-6.

84. Davenport, *South Africa: A Modern History*, 564.

85. Many Africans and Coloureds participated in the war, as unarmed members of South African auxiliary units. Davenport, *South Africa: A Modern History*, 299. Of the approximately 5,500 South African battle deaths, approximately half were African. Leonard Thompson, *A History of South Africa* (New Haven, Conn.: Yale University Press, 1990), 177.

86. A large segment of the economically weaker, Dutch-speaking population challenged the state's support for the Allied cause.

87. J. C. Smuts, 4 November 1941 speech reported in the 1941 Assocom minutes.

88. Social and Economic Planning Council, *Report No. 7 of the Social and Economic Planning Council into the Tax System* (Pretoria: Government Printers, 1946).

89. PM Anderson, President of the Chamber of Mines. Annual Report, 1941.

90. (Editorial) *Rand Daily Mail* (26 February 1942).

91. See the various contributions in David Collier, *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979), for a discussion of the "Bureaucratic-Authoritarian" model in Brazil. The descriptions for this ideal-type are in many respects also appropriate for the South African case. See Seidman, *Manufacturing Militance*, 94.

92. In South Africa, in 1952, the ANC launched a large passive resistance campaign, and in 1955, approximately 3,000 people gathered to adopt the Freedom Charter, calling for an end to institutionalized racism. In Brazil, political polarization in the early 1960s emerged between the more conservative congress on the one hand, and workers and peasants with the support of President Goulart on the other. In March 1964, Goulart led a Rio de Janeiro rally of working class people, calling for "basic reforms," a stance interpreted as highly threatening to the Brazilian business community.

93. The pass laws were a key pillar of apartheid legislation that regulated the flow of people into and out of various areas within Southern Africa based on identity documents and racial classification.

94. By the late 1950s and early 1960s, policy makers in both countries were expressing increased desires to reform the respective tax systems, and to modernize them with new technologies, and in fact, study commissions from as early as the mid-1940s presented arguments for long-term tax reform. For example, the study reports issued by Special Commission of the Tributary Code (1950s and 1960s) and the joint Fundação Getúlio Vargas/Inter-American Development Bank commission (1960s) in Brazil; and the Social and Economic Planning Council (1940s), and the Holloway (1946), Steyn (1954), and Schumann Commissions (1966) in South Africa.

95. Stanley Greenberg, *Race and State in Capitalist Development: South Africa in Comparative Perspective* (Johannesburg: Ravan Press, 1980). Thompson, *A History of South Africa*, 206-7.

96. *The Manufacturer* (January 1966, 14), as cited by Greenberg, *Race and Nation*, 205.

97. Marx, *Making Race and Nation*; Thompson, *A History of South Africa*. In particular, see the discussion of Verwoerd's conciliatory stance toward the English-speaking population following the declaration of the South African Republic in Davenport, *South Africa: A Modern History*, 360-2.

98. Abrucio, *Os Barões da Federação*. Frances Hagopian, *Traditional Politics and Regime Change in Brazil, Cambridge studies in comparative politics* (Cambridge; New York: Cambridge University Press, 1996).

99. Andrews, *Blacks & Whites in São Paul*, 7.

100. See, for example, Carlos A. Hasenbalg, "Desigualdades Raciais no Brasil," *Dados*, no. 14 (1977): 7-33. Darcy Ribeiro, *O Povo Brasileiro* (São Paulo: Companhia das Letras, 1995).
101. Personal Interview, Sandton, South Africa (31 July 1998).
102. Personal Interview, Johannesburg South Africa (1 June 1998).
103. See the Report of the Secretary for Inland Revenue for the year 1965-1966 (Pretoria, March 1968), and the Margo Report (1986).
104. *Revista de Finanças Públicas*, (September 1968), 2
105. Howard S. Ellis, *The Economy of Brazil*. (Berkeley: University of California Press, 1969), 182.
106. Hagopian, *Traditional Politics and Regime Change*, 70.
107. Leigh A. Payne, *Brazilian Industrialists and Democratic Change* (Baltimore: Johns Hopkins University Press, 1994), 51.
108. Abrucio, *Os Barões da Federação*, 82-90.
109. Personal Interview, Delfim Netto, Brasília, Brazil (15 April 1999).
110. Hagopian, *Traditional Politics and Regime Change*, 120.
111. Ricardo Varsano, "The Tax System of 1967: Is It Still Adequate for Brazil in the 1980s," in *Brazilian Economic Studies* (Rio de Janeiro: Instituto de Planejamento Econômico e Social, 1984), 338, 345. Dennis J. Mahar, "Fiscal Incentives and the Economic Development of the Western Amazonia," *Brazilian Economic Studies* 2 (1975), 149.
112. Kurt Weyland, *Democracy Without Equity: Failures of Reform in Brazil* (Pittsburgh: University of Pittsburgh Press, 1996), 81-2.
113. Extensive interviews with SRF officials, tax consultants from various "Big-Six" firms, and business leaders. See also, Ferreira, *Legislação Tributária*, 139.
114. In 1998, the top personal income tax rate in South Africa was 45 percent, and in Brazil, it was 25 percent.
115. Moreover, although absolute and per capita expenditure on whites was always significantly greater than on blacks, within this highly unequal society, blacks still received more on the expenditure side than they contributed in the form of taxes on the revenue side. M. D. McGrath, "The Racial Distribution of Taxes and State Expenditures," (Durban: Department of Economics, University of Natal, 1979).
116. Hartz, *The Founding of New Societies*. Beyond Latin America, the United States, Canada, Australia, and South Africa, other possible cases that would meet the definition of a "fragment" society are New Zealand, Rhodesia/Zimbabwe, Southwest Africa/Namibia, and Israel.