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Political economy of citizenship regimes: Tax in India and Brazil

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Working Paper 2015-11

Political Economy of Citizenship Regimes

Tax in India and Brazil

Aaron Schneider

prepared for the UNRISD project on
Politics of Domestic Resource Mobilization

July 2015

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to stimulate discussion and critical comment.



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The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For further information on the project visit www.unrisd.org/pdrm.

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Acronyms

AGP	Asom Gana Parishad
BJP	Bharatiya Janata Party
BSP	Bahujan Samaj Party
CBGA	Centre for Budget and Governance Analysis
CIDE	Contribuição de Intervenção no Domínio Económico
COFINS	Contribuição para o Financiamento da Seguridade Social
CPMF	Contribuição Provisória sobre Movimentação Financeira
CPSS	Contribuição para o Plano de Seguridade Social
CSLL	Contribuição Social Sobre Lucro Líquido
CSS	Contribuição Social para Saúde
CUT	Centro Único dos Trabalhadores
DMK	Dravida Munnetra Kazhagam
FGTS	Fundo de Garantia do Tempo de Serviço
FUNDAP	Fundação do Desenvolvimento Administrativo
GDP	Gross Domestic Product
ICMS	Imposto Sobre Circulação de Mercadorias e Serviços
ILO	International Labour Organization
IMF	International Monetary Fund
INC	Congress Party (Indian National Congress)
MNREGA	Mahatma Gandhi Rural Employment Guarantee Scheme
NAC	National Advisory Council
NRI	Non-Resident Indian
OBC	Other Backward Classes
PCdoB	Partido Comunista do Brasil
PDT	Partido Democrático Trabalhista
PFL	Partido da Frente Liberal
PIS	Programa de Integração Social
PL	Partido Liberal
PMDB	Partido do Movimento Democrático Brasileiro
PP	Partido Progressista
PPB	Partido Progressista Brasileiro
PPR	Partido Progressista Renovador
PPS	Partido Popular Socialista
PR	Partido de la República
PRN	Partido de la Reconstrucción Nacional
PSB	Partido Socialista Brasileiro
PSD	Partido Social Democrático
PSDB	Partido da Social Democracia Brasileira
PSOL	Partido Socialismo e Liberdade
PT	Partido dos Trabalhadores
PTB	Partido Trabalhista Brasileiro

PV	Partido Verde
RJD	Rashtriya Janata Dal
RSS	Rashtriya Swayamsevak Sangh
SP	Samajwadi Party
SC	Scheduled Caste
SSS	Sistema de Seguridade Social
ST	Scheduled Tribe
TDP	Telugu Desam Party
UPA	United Progressive Alliance
WDI	World Development Indicators

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Summary

Patterns of change in citizenship regimes help explain differences in tax structure in Brazil and India. Changes to citizenship regimes include the mobilization of new collective identities, the substantive demands they articulate, and the stable linkages that connect them to public life. When excluded groups mobilize and gain access to citizenship regimes, they provide new sources of legitimacy to states, which can call on sacrifice from a broader range of social actors and thereby increase state capacity, for example in tax. Changes to tax can be evaluated in terms of levels of revenues, degrees of progressivity, and the universality of application of tax across sectors and regions. Since the 1970s in Brazil and India, excluded groups constituted new collective identities, articulated demands of the state, and secured stable linkages connecting state and society. These processes deepened democracy in both countries, but there were differences in the types of collective identities mobilized, the demands articulated, and the mechanisms of linkage between state and society.

In Brazil, a cross-class coalition of previously excluded working class, social movement, and middle class actors provided a social base that mobilized in the struggle for democratization and articulated demands in opposition to neoliberal stabilization during the 1990s. When growth returned in the 2000s, they were provided stable linkages to the state through social policies and institutions that made use of expanded revenues. Despite a cross-class coalition stably linked to the state through policies and institutions, particularities of Brazilian politics force the accommodation of economic and political elites, and they have blocked more significant efforts to reverse patterns of inequity in the tax system that appear both in terms of regressivity and a lack of universality.

In India, a variety of middle class, caste, regional, and identity-based interests struggled for access to the polity and displaced Congress dominance. In the context of elite consensus around neoliberal stabilization, these previously excluded groups framed their demands around recognition and benefits targeted to identity-based groups, with patterns of linkage to the state through cycling combinations of regionally-specific alliances producing a patchwork of policies, institutions, and legislation linking to the state. This pattern of competitive coalition-building has failed to generate cross-class support for increased revenues, and has exacerbated the lack of progressivity and universality in tax.

The lessons of this study shed light on the role of cross-class coalitions in supporting state capacity in the form of increased revenues. At the same time, they reveal that the formation of cross-class coalitions is a highly contingent process, depending on the political, economic, and cultural determinants of changes to citizenship regimes, in which previously excluded groups mobilize and pursue mechanisms of incorporation to the polity.

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Introduction

While Brazil and India have emerged as important global players, they display important differences in the capacities of their state. Since the liberalization of the economy in the early 1990s, Brazil has increased its revenues by about a third to 36 per cent of Gross Domestic Product (GDP), though the country continues to struggle with problems of inequity, including a regressive tax structure that rests more heavily on those with fewer resources to contribute and horizontal inequities that apply different tax burdens across states in the federation. Since its liberalization at around the same time, India has seen barely any change in revenue mobilization, remaining at a much lower 16 per cent of GDP in revenues, along with a slightly different pattern of inequities mostly characterized by privileges targeted at dynamic and internationally-integrated sectors. This paper explores tax through the political economy of citizenship, arguing that the way excluded groups gain access to the state shapes the degree and manner in which governments mobilize revenues from citizens.

The concept of citizenship regimes refers to the ways groups are linked to the state – what collective identities are considered legitimate in politics, what organizations are formed and substantive demands mobilized, and what institutions link social groups to the state. Even among putatively equal citizens, citizenship regimes frequently include hierarchies, as some groups experience fewer mechanisms of access to the state (Holston 2009). Democratic deepening occurs as relatively excluded groups mobilize to legitimate their collective identities, demand substantive benefits, and link to the state by mechanisms of incorporation (Held 1995).

This process of democratic deepening also shapes the character of states in terms of their capacity. Deepening democracy links new groups to the state, potentially allowing states to call on additional and new sacrifices from a broader range of citizen groups. These sacrifices include social compliance, military service, or as analysed here, tax contributions.

Tax regimes can be characterized by three dimensions: capacity, progressivity, and universality. Tax capacity refers to the amount mobilized as a per cent of GDP. The progressivity of tax is the ability of the state to capture resources from well-off groups. The universality of tax is the degree to which obligations are applied equally across regions and sectors of an economy.

The incorporation of previously excluded groups into citizenship regimes allows states to secure greater revenues from a broader segment of society. The precise amount of revenue, who can be asked and compelled to contribute, and for what objectives, are shaped by the patterns of incorporation by which previously excluded groups are fit into citizenship regimes.

This paper evaluates changes to state capacity in Brazil and India by looking at the political economy of citizenship regimes and tax. The next section outlines the main concepts that orient the argument: citizenship regimes and state capacity to tax. The following sections apply the framework to Brazil and India, dividing the analysis into periods demarcated by the rise of excluded groups, articulation of demands in the context of liberal adjustment, and coalition-building in the context of renewed growth. The central argument is that both Brazil and India have deepened their democracies over recent years, but with different impacts on state capacity as expressed in tax. Expanded citizenship in Brazil stabilized a cross-class coalition in support of more revenues, collected more progressively, but with ongoing problems of regional and

sector non-universality. In India, expanded citizenship has produced cycling coalitions of caste, regional, linguistic and communal majorities unable to stabilize support for greater revenue mobilization, with limited progressivity, and ongoing problems of a lack of universality.

Analytical Framework

Citizenship regimes

Citizenship regimes establish social actors as legitimate participants in political processes and claimants on public resources and authority. While many discussions of citizenship focus on migrants, foreigners, or others who do not enjoy full citizenship within a polity, the concept of citizenship regimes is broader (Howard 2009). It refers to the social actors recognized as legitimate political actors, bearers of rights and responsibilities before the state, and privy to stable mechanisms of incorporation that connect them to public, political processes (Collier and Collier 1991).

The concept of citizenship regimes allows comparison across polities, across time and subsections of society to make sense of who has access to the state and on what terms. According to Deborah Yashar, “citizenship regimes define *who* has political membership, *which* rights they possess, and *how* interest intermediation with the state is structured” (Yashar 2004: 6).

Citizenship regimes can vary in a number of ways. Firstly, social actors may be recognized as full participants in one polity but remain unrecognized elsewhere. Liberal principles of citizenship regimes presume universal and equal rights for all individuals before the state, though certain individuals, such as immigrants and children, may not be granted full citizenship rights, and others, such as prisoners, may have their rights temporarily or permanently withdrawn. Many citizenship regimes also include pluralist principles, recognizing cultural, gender, class and other collectivities due differentiated rights and responsibilities. For example, corporatist systems recognize key productive groups, such as capital and labour, as holders of rights and provide them with mechanisms of representation and intermediation with the state on entities such as wage-setting and sectoral coordination boards (Berger 1983). Similarly, multicultural citizenship establishes special status and group-held rights for identity-based groups, such as indigenous populations, ethnic minorities, and religious groups, establishing legal and constitutional protections as well as preferential access to state resources and authority (Kymlicka 1995).

A second dimension along which citizenship can vary is the delineation of substantive demands defined as rights. T.H. Marshall (1950) provides a narrative of progressively deepening citizenship rights, in which citizenship emerged first in the civil sphere (habeus corpus, private property protections, access to justice), then in the political sphere (voting rights, freedom of assembly, protections of speech), and finally in the social sphere (for example education, health, pensions). The precise combination of demands can vary, as can the sequences by which they evolve over time. Struggles to redefine citizenship establish new obligations for states to fulfill and new rights held by citizens.

Finally, citizenship regimes can also vary with respect to mechanisms of linkage that bridge social actors to the political arena (Collier and Collier 1991: 783). Mechanisms of incorporation include state institutions and policies imposed from above, civil society

organizations that emerge from below, and political parties that act as intermediary associations and conduits between state and society. These differences in state, society, or partisan mechanisms represent different sites for the exercise of citizenship and can preserve ongoing differences in the ways in which citizenship rights and obligations are performed. Differences may appear in the stability of linkages, which can shift over time, as well as the effectiveness of linkages, which may produce different kinds and levels of material and symbolic benefits.

The dimensions “who, which, and how” help to disaggregate citizenship regimes, and fit into a more general literature that seeks to move polities towards deeper democracy (Held 1995). This implies an underlying narrative of ever-broadening inclusion, deepening of benefits, and thickening mechanisms of communication between state and society.

This paper argues that changes to citizenship regimes occur as social actors constitute new collective identities, articulate and organize demands, and establish mechanisms of linkage to the state. This process deepens democracy but its precise character varies as a result of political dynamics – which collective identities emerge, what demands are articulated, and what mechanisms link newly emerging groups to the state. Who mobilizes, for what demands, and how are they linked to politics? Variations in the evolution of citizenship regimes in Brazil and India entail different patterns of deepening democracy and ultimately influence the capacity of the state as expressed in tax capacity, progressivity, and universality.

State capacity and tax

One product of changes to citizenship regimes appears in levels and kinds of state capacity as expressed in tax. As new social groups are incorporated into citizenship regimes, states gain new mechanisms of linkage to society and new bases of legitimacy to pursue collective projects. Variations in the amount of support offered, the groups who provide it, and the mechanisms of linkage produce state capacity of different kinds. For example, developmental states that incorporate dynamic sectors through Weberian bureaucracies develop capacity to engage in “husbandry” to stimulate growth. Alternatively, states with patrimonial relationships to dominant sectors develop the capacity only to engage in “predation” by extracting resources from society (Evans 1995).

As a way to evaluate different kinds of state capacity, tax structures offer a useful indicator, as they measure the coercive power of the state as well as its bases of legitimacy (Brautigam, Fjeldstadt and Moore 2008). The coercive aspects focus on the bureaucratic, technical and authoritative capacity of state institutions. Where states have sufficient coercive power, they can extract sacrifices from social actors, even wealthy ones, whose political leverage and opposition to extraction might be significant.

Not all state efforts to expand revenues are successful, however; they depend on the consent of the governed. One view of consent suggests that states must enter into direct bargaining relationships with contributors, whereby mechanisms of state-society communication enable social groups to negotiate with the state over obligations and benefits, thus establishing a fiscal contract (Timmons 2005). The payment offered in tax is akin to an exchange – contributions for benefits – in which the state “sells” services to citizen “consumers,” who provide tax payments.

This exchange can also be seen as a more diffuse transaction, in which citizen sacrifice supports universally available public goods, such as democratic participation, transparent decision-making, and effective implementation. Such goods are public because they are non-exclusive and non-rival; there is no link between individual contribution and enjoyment of benefits. According to this view, taxation is a collective action problem of getting individual taxpayers to sacrifice their resources in pursuit of social ends (Lieberman 2005).

Over time, state-society relations that sustain tax contributions, policy benefits, and collective action generate deeper and longer-lasting legitimacy and attachment. This is encapsulated in a culture of tax, in which citizens identify tax payment with their membership in a society, their acquiescence and participation in representative government, and the pursuit of collective goods.

Tax systems provide useful indicators of both the coercive power of the state and its social bases of legitimacy. The overall tax burden as a percentage of GDP offers a simple impression of the degree to which states mobilize resources from citizens. Disaggregated into bases and rates, tax structures also shed light on issues of equity. Progressivity, or vertical equity, refers to levels of progressivity in terms of the degree to which tax systems capture resources from wealthier and more dynamic sectors and rest less heavily on poorer social groups. Universality, or horizontal equity, refers to the degree to which tax systems are applied universally across economic activities and geographic regions, such that economic agents with equal wealth or income pay the same amount, no matter who they are or where they operate. Exemptions for particular regions or sectors provide one indicator of a lack of tax universality, and often provoke additional problems for tax progressivity and capacity.

As dimensions of tax, capacity, progressivity, and universality offer useful insights into the character of state capacity and legitimacy. By making use of these dimensions of tax systems, the current study explores the nature of state capacity in Brazil and India and traces differences in tax structure to patterns of expansion in citizenship regimes.

Tax Capacity in Brazil and India

Both Brazil and India have undertaken important changes to their tax regimes in the past two decades, but those changes have produced quite different results. In Brazil, changes to the tax regime have expanded revenues, with particular expansion in direct taxes and taxes drawn from newly incorporated social groups linked to the state through social programmes. Still, there are stubborn problems of regressivity and a lack of universality. In India, reforms have broadened bases to improve universality, but this has afforded limited increases in revenues and only weak gains in progressivity. Problems of horizontal and vertical inequity have worsened as a result of a proliferation of exemptions targeted at the most dynamic and internationally integrated sectors. The sections below explore these details to describe dimensions of capacity, progressivity and universality in tax.

Brazil: Expanded capacity, limited progressivity and limited universality

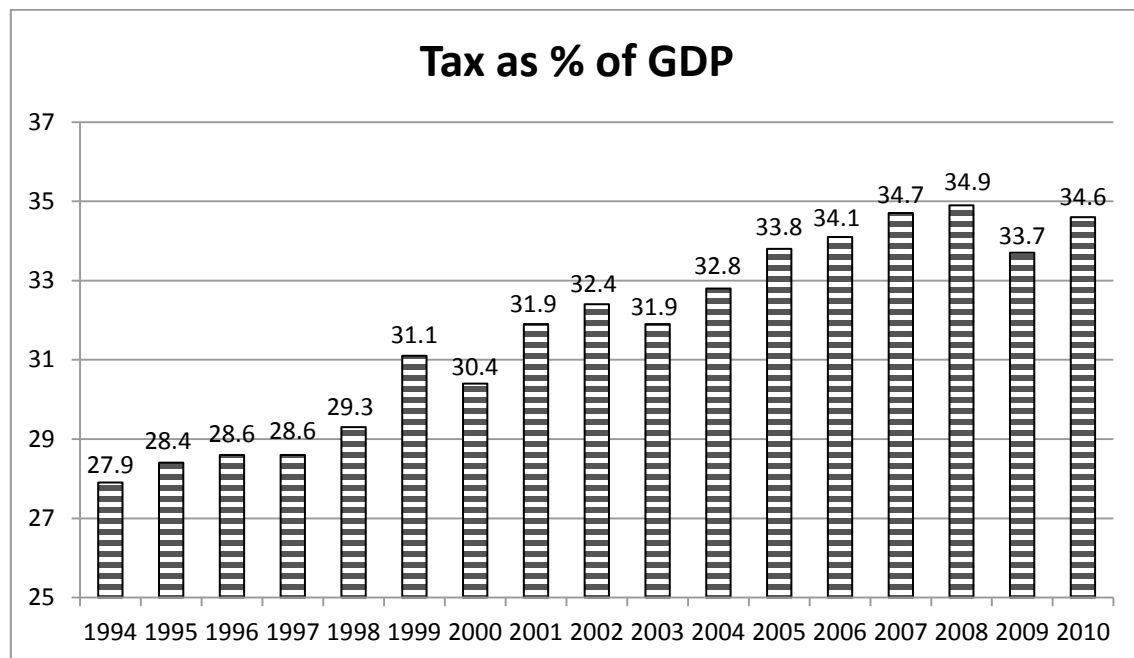
After a concerted effort to increase tax capacity from the mid-1990s to the present, Brazilian taxes are today among the highest in the developing world.¹ From 1994 to

¹ Calculations by Fenochietto and Pessino (2010) estimate Brazil taxes 98 per cent of what would be possible given its level of development and other characteristics.

2008, tax revenue increased steadily, with notable reforms to the tax system driven by an increase in income taxes and the implementation of numerous contributions linked to social spending outlays. These increases more than compensated for decreases in tariffs as Brazil liberalized international trade.

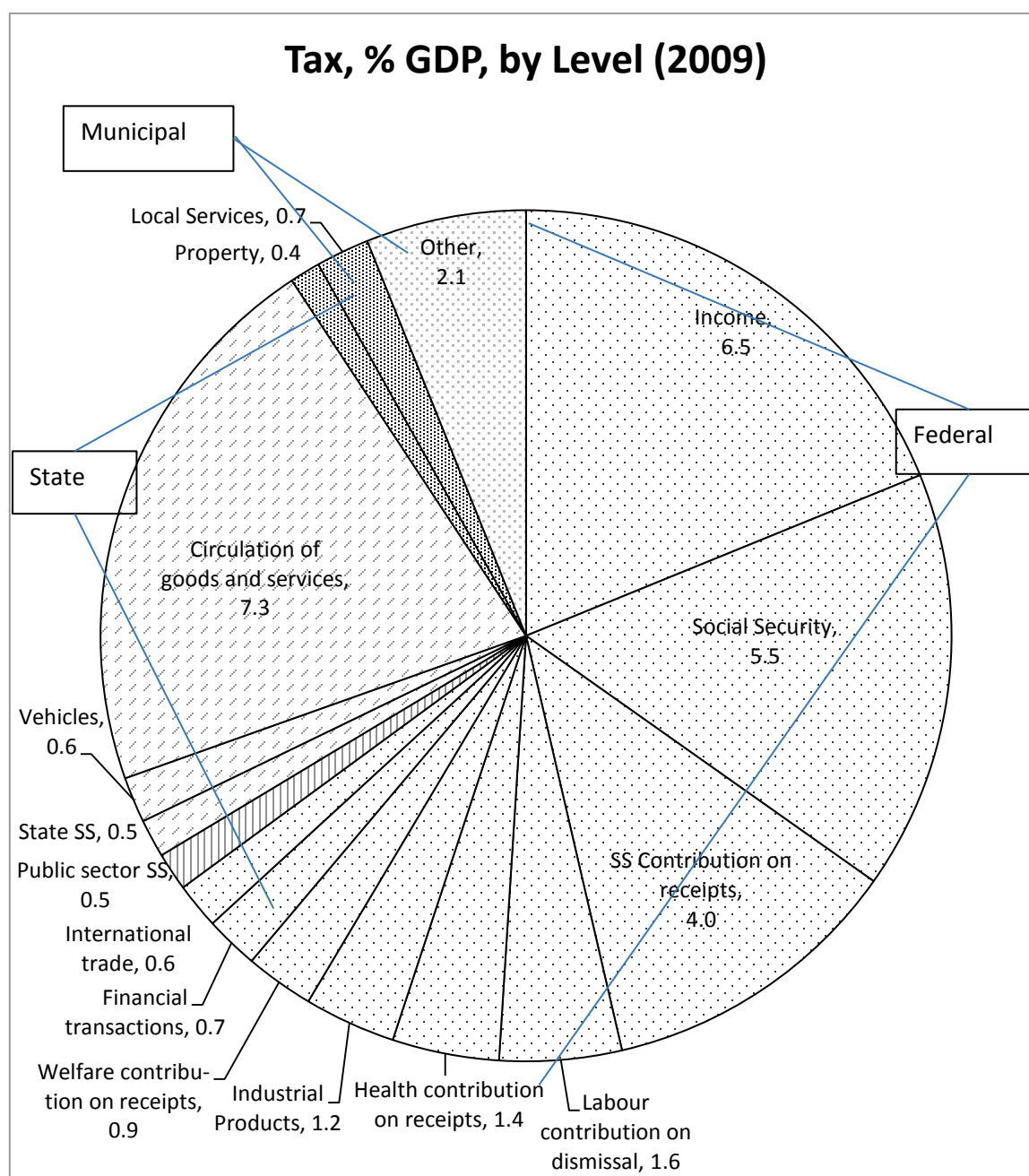
Figure 1 below shows the increases in tax as a percentage of GDP between 1994 and 2010. Taxes increased from 28.4 per cent to 34.6 per cent. These revenues were necessary as the country faced fiscal insolvency during the 1980s and had to muster revenues to combat inflation. In addition, the government needed additional income to support expanded social spending mandated in the 1988 Constitution and responding to demand pent up during the 20 year military regime that left power in 1985.

Figure 1: Tax as percentage of GDP in Brazil, 1994–2010



Source: Author calculations from CEPALSTAT.

A glimpse at the distribution of taxes and their attribution to different levels of government, illustrated in Figure 2, highlights several details. The tax system is complex, made more so with a large number of contributions tied to specific social spending outlays. These are mostly collected at the federal level (social security, labour, health, welfare), and some use payroll as a base while others calculate contributions on the basis of gross receipts. The single largest tax is a tax on the circulation of goods and services attributed to the states, accounting for 7.3 per cent of GDP.

Figure 2: Tax as percentage of GDP, by base and level of government (2009), Brazil

Source: Author calculation from Brasil Fatos e Dados 2012.

With the most important tax on consumption – the Tax on Circulation of Goods and Services (ICMS) – controlled by state governments, the federal government was forced to exchange trade taxes lowered by liberalization for income taxes. This replacement was reasonably effective, as federal taxes stood at 7.97 per cent of GDP in 1994 and 7.67 per cent in 2010. The effort to raise income taxes resulted in an increase in direct taxes in the 2000s. By 2009, direct taxes were almost 60 per cent of the total, up from barely 44 per cent in 2000. As a percentage of GDP, this represented an increase from 13.59 per cent to 17.83 per cent (Afonso, Castro and Soares 2013).

To increase revenues further, the federal government made marked use of earmarked taxes, known in Brazil as contributions. These increased from 8.95 per cent of GDP in 1994 to 12.94 per cent of GDP in 2010. Federal contributions include social security, a social security contribution on business receipts (COFINS), a contribution to

unemployment benefits for dismissed workers (FGTS), a health contribution on receipts (CSS), a welfare contribution on receipts (PIS), a public sector social security contribution (CPSS), a contribution on profits towards social security (CSLL), a contribution on fuel towards education and health (CIDE), and for a time there was a contribution towards education and health on financial transactions (CPMF).²

Contributions hold several attractions as sources of revenue. First, while other federal taxes are shared with state and local governments, contributions are not.³ Second, contributions are supposed to be earmarked, and therefore more closely linked in voters' perceptions to intended uses. Third, despite earmarks, contributions remain attractive to state elites as they are frequently available for other uses, either because outlays occur long in the future (as in social security) or because the outlays are difficult to monitor.

In addition to considering changes in the levels and structure of revenues, it is also possible to evaluate the incidence of tax in terms of impacts on distribution. For example, while the increase in direct taxes is likely to have positive impacts on vertical equity, indirect taxes, which continue to account for about half of all taxes, are likely to have negative impacts on vertical equity (DIEESE 2009). Contributions raised in direct proportion to income streams, such as gross receipts, are likely to have progressive impacts, while contributions calculated on other bases, such as payroll, are likely to have regressive impacts.

A more precise way to explore the equity impact of changes to the tax system is in terms of the relative burden on income groups. The chart below (Table 1) is taken from a study that uses household surveys to calculate the incidence of tax, and displays the change from 1996 to 2004 in direct, indirect, and overall taxes. First, the change from 1996 to 2004 shows an increasing burden for all deciles. People pay more of their incomes in tax. Second, the increase is steadily greater for poorer deciles than it is for richer deciles (except a portion of the upper middle class), and the increase weighs heavier on the poor. Still, though they appear to have become less progressive over time, the burden of direct taxes continues to increase with wealth.

Table 1: Changes in Tax Incidence in Brazil, 1996 and 2004

Family Income	Direct % Income 1996	Direct % Income 2004	% Indirect Income 1996	% Indirect Income 2004	Tax % Income 1996	Tax % Income 2004	Tax Increase
<2SM	1.7	3.1	26.5	45.8	28.2	48.8	20.6
2 to 3	2.6	3.5	20.0	34.5	22.6	38.0	15.4
3 to 5	3.1	3.7	16.3	30.2	19.4	33.9	14.5
5 to 6	4.0	4.1	14.0	27.9	18	32.0	14.0
6 to 8	4.2	5.2	13.8	26.5	18	31.7	13.7
8 to 10	4.1	5.9	12.0	25.7	16.1	31.7	15.6
10 to 15	4.6	6.8	10.5	23.7	15.1	30.5	15.4
15 to 20	5.5	6.9	9.4	21.6	14.9	28.4	13.5
20 to 30	5.7	8.6	9.1	20.1	14.8	28.7	13.9
>30	10.6	9.9	7.3	16.4	17.9	26.3	8.4

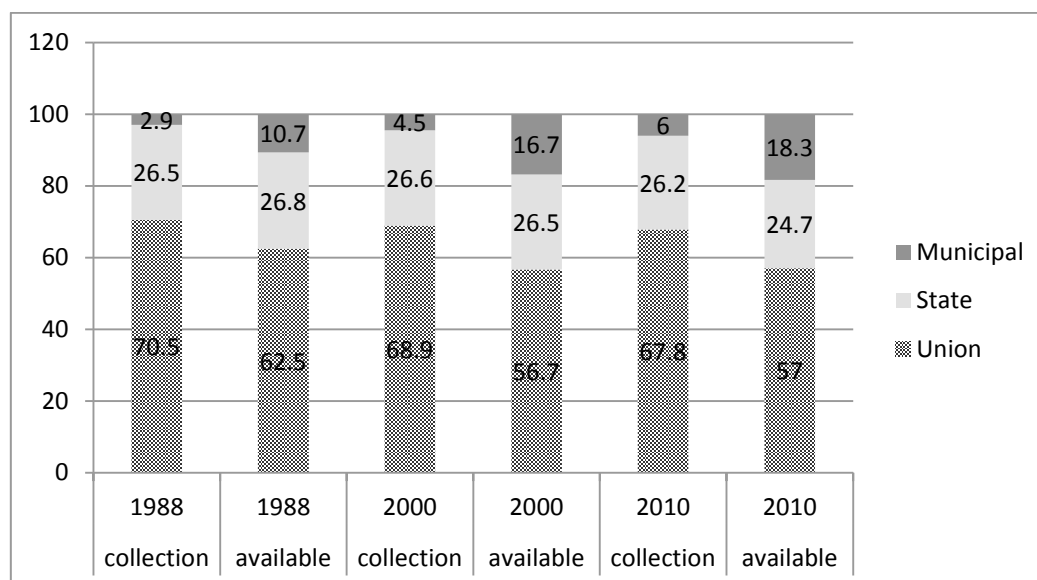
Notes: SM: minimum salary. **Source:** Afonso, Castro and Soares 2013 from Zockun et al. 2007

² At the state level, there was a social security programme on salaries (SSS).

³ In fact, for temporary periods that were repeatedly renewed, 20 per cent of all federal revenues were separated from the pool of shared taxes and made available only to the federal government, first through the Social Emergency Fund and later through Disconnection of Receipts.

Figure 3 below shows shifts in tax structure. The federal government continued to collect the bulk of revenues, close to 70 per cent of the total. Of these revenues, it could decentralize resources to municipalities without losing too much of the resources available. Municipalities significantly increased their share of receipts available after transfers from 10.7 per cent in 1988 to 18.3 per cent in 2010. This increase came only partly at the expense of the federal government, which dropped from 62.5 per cent of receipts available after transfers to 57 per cent, with the rest coming out of the share of state governments, which fell from 26.8 to 24.7 per cent of receipts available after transfers.

Figure 3: Revenues Collected and Available, by Level of Government (1988-2010), Brazil



Source: Afonso, Castro and Soares 2013.

In the absence of fiscal space at the state level, and with the elimination of their other developmental tools such as state enterprises and banks which they were forced to privatize, state governments engaged in a practice labelled “fiscal war” in the popular Brazilian press (Mioto 2013). Fiscal war among the states is the competitive offer of tax incentives to businesses that transact in their state, as well as efforts to pressure the federal government to alter the tax rates paid in one state or another. This has introduced horizontal inequities as taxpayers operating in one state face different tax rates from those operating in another. To add to confusion in the cases of goods sold across state borders, the rate depends on where the good originated and where it is sold.⁴ Table 2 below displays some of the main benefits conceded by different states, with the aggregate impact being a deterioration of revenues in all the states.

⁴ For example, goods originating in São Paulo face a rate of 18 per cent if sold in São Paulo, 12 per cent if sold in Rio de Janeiro, Minas Gerais, Paraná, Santa Catarina, or Rio Grande do Sul, and 7 per cent if sold in all others.

Table 2: Benefits by State, Brazil (2013)

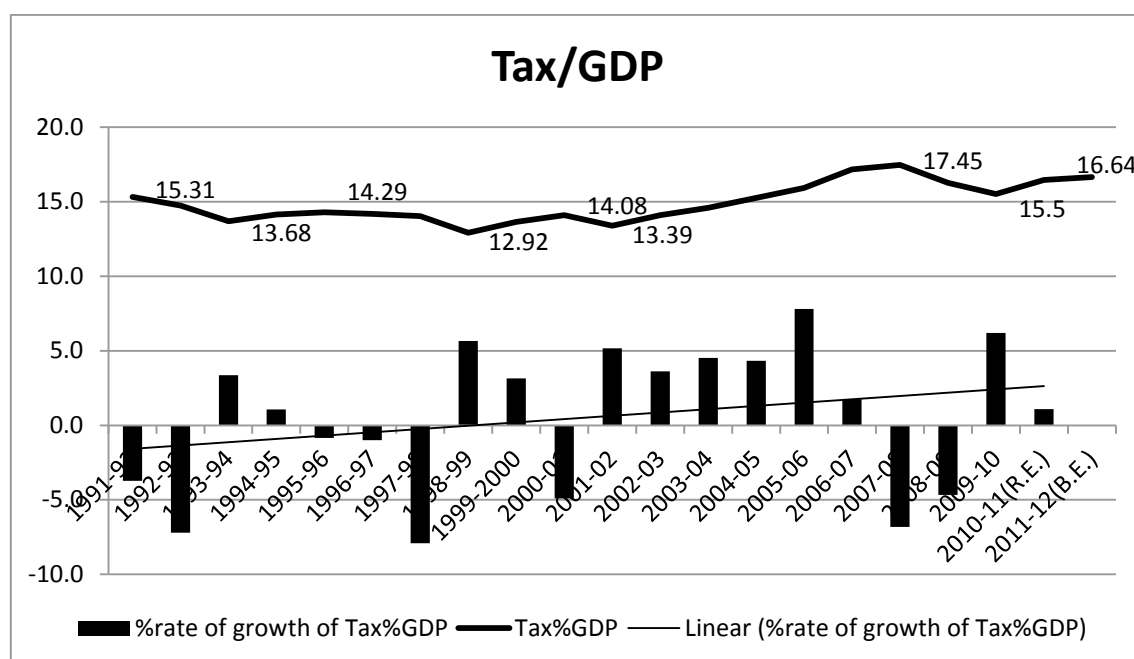
	Main Benefit Conceded
Alagoas	Eliminate tax debts with bonds
Amazonas	6% credit on imports
Bahia	Tax holiday on ICMS
Ceara	90% financing on ICMS without adjustment
Distrito Federal	Presumed credit of 24% on distribution costs
Espirito Santo	Financing of ICMS without adjustment by FUNDAP
Goiias	Financing of ICMS and presumed credit of 5%
Minas Gerais	Financing of ICMS with need-based increase
Mato Grosso do Sul	Presumed credit up to 100% on ICMS owed
Mato Grosso	Presumed credit of up to 50% on ICMS owed
Pernambuco	Presumed credit by PRODEPE
Parana	Suspend ICMS on imports
Rio de Janeiro	Reduced base for calculation for ICMS
Rio Grande do Norte	Presumed credit of 50% of ICMS owed
Rondonia	Presumed credit of 95% of ICMS owed
Rio Grande do Sul	Presumed credit of 75% of ICMS owed
Santa Catarina	Financing of ICMS without adjustment
São Paulo	Reduced base for calculation of ICMS for industry

Source: Folha de São Paulo from Secretaria de Fazenda São Paulo 2013.

The tax system in Brazil is impressive in the gains it has produced in terms of revenue. In an incredibly short period, the country has increased its tax effort, which has supported both a fiscal adjustment and social spending increase. While the changes to tax structure have increased revenues from direct taxes, especially since 2000, the tax structure remains burdened with problems of regressivity and lack of universality. Regressivity persists in terms of a larger burden paid by poorer sections of taxpayers, and the lack of universality means taxpayers face different rates depending on where they transact. Both are problematic for the functioning of markets and regressivity is problematic in a country that is already among the most unequal in the world.

India: Limited capacity, limited progressivity, and limited universality

In India, tax capacity has largely held steady since the onset of neoliberal reforms in the early 1990s, as is shown in Figure 4 below. The figure displays tax as a percentage of GDP in the upper line, the per cent rate of growth of tax as a percentage of GDP below, with a trend line that shifts from negative to positive in 1998-99.

Figure 4: Tax as per cent of GDP (1990/91 – 2011/12), India

Source: Data from Statistical Appendix to India Statistical Yearbook, generously provided by Sankhanath Bandyopadhyay.

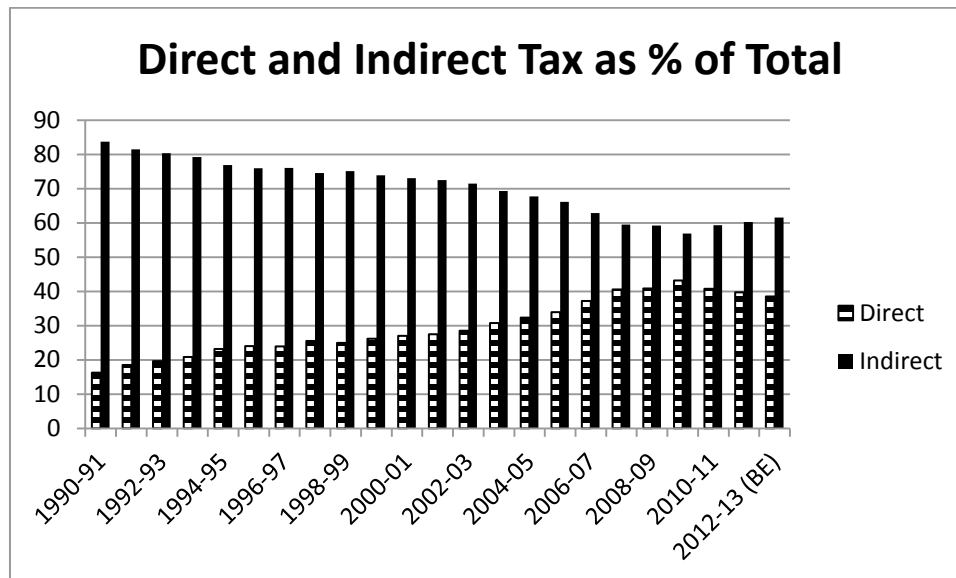
In 1991-92, taxes stood at 15.31 per cent of GDP while the estimate for 2011-2012 was 16.64 per cent of GDP. Within this relatively steady overall trend, there were some fluctuations, as taxes trended downwards most years between 1991 and 2001 and again during the international slowdown in 2007-08 and 2008-09. A combination of reforms and rapid growth offered reasonable upward movement that made up for drops in revenues between 2001-02 and 2006-07, but this was only sufficient to bring taxes close to their starting level.

It may be not surprising to observers that levels of tax capacity in India are lower than in Brazil bearing in mind the country's economic structure, poverty, and other characteristics that typically predict tax effort. Recent studies of tax effort however show that, even taking into account typical determinants of tax burden, India's tax capacity is quite low. According to the International Monetary Fund (IMF), India's actual tax effort is only 52.2 per cent of the predicted level when controlling for income per capita, economic openness, agriculture as a share of GDP, spending on education, income inequality, corruption, and inflation (Fenochietto and Pessino 2010).⁵

In terms of distributional impact of tax, there have not been the same studies of incidence in India as in Brazil, but some conclusions can be drawn from the relative burden of direct and indirect taxes. Direct taxes on such bases as income, wealth, property, and capital gains tend to fall more heavily on those who are wealthier, and in India there would appear to have been a shift in the tax structure towards direct taxes, from 16 per cent of total revenues to a peak of 43 per cent in 2009-10. The changing relative proportion of direct and indirect taxes is displayed in Figure 5, below. Still, the low overall burden of taxes and the ongoing dependence on indirect taxes suggests that there is significant room to expand direct taxes and increase the progressivity of the tax regime.

⁵ For the sake of comparison, Brazilian tax effort is 98.4 per cent of predicted levels (Fenochietto and Pessino 2010).

Figure 5: Direct and Indirect Tax as per cent of Total (1990/91 – 2012/13), India



Source: Author calculations from Government of India Budget, various years.

More worrying still is that most of the direct taxes come from corporate income tax, which reflects the rapid growth in the country and the degree to which profits, as opposed to wages, have absorbed that growth (Sood, Nath and Ghosh 2014). Further, reforms to the Income Tax Act of 1961 and the Wealth Tax Act of 1957, which were initially advanced in the 2009-10 budget, caused revenue losses, drops in marginal rates on corporate income tax, and shifts in personal income tax brackets upwards such that most people fell into the lowest bracket.⁶ These changes have regressive impacts overall, as seen in an upward movement in the share of indirect taxes in total revenues to 61.6 per cent in 2012-13.⁷

A number of specific differences emerge when exploring the role of social contributions in the revenues of the two countries. Brazil, as discussed above, gathers a significant portion of its revenues in contributions, 22 per cent according to World Bank Development Indicators. By contrast, only 0.32 per cent of central government revenues in India come from social contributions, and labour taxes as a percentage of commercial profits are more than twice as high in Brazil (41 per cent) compared to India (18 per cent).⁸ In addition to the lack of mobilization of social contributions, an additional explanation is the large size of the informal sector in India, hovering around 83.9 per cent in India according to the International Labour Organization (ILO 2014).⁹

The tax system in India is also pocked full of exemptions, producing complications for compliance and administration, as in Brazil. Whereas in Brazil exemptions and privileges were most marked for the differences they produced across the national territory, in India exemptions are notable for both their regressive impact on vertical

⁶ "Thus, virtually every taxpayer excluding those up to RS 3 lakh income will be paying less by a third or more of the present tax liability and over 97 per cent of the present taxpayers will be paying the tax at just 10 per cent" (Kavita Rao and Rao 2009: 36).

⁷ Without incidence data from both countries, it is difficult to compare the degree of progressivity in the overall fiscal impact. Still, some trends are evident. Gini coefficients in Brazil were relatively flat during the 1990s at around 60 and fell in the 2000s to 54.69 in 2009. In India, while data is less complete, they began at 30.82 in 1994 and have risen ever since, reaching 33.38 in 2005 and 33.9 in 2010 (World Development Indicators (WDI)).

⁸ World Bank, World Development Indicators (WDI), accessed 02/14.

⁹ Some estimates place the number as high as 93 per cent of non-farm employment in India (Kumar 2010), as compared to 42.2 per cent in Brazil in 2009, a rate that has fallen considerably since 2000, when it was over 60 per cent.

equity and their distorting impact on horizontal equity. Estimated revenues foregone by India from incentives reach 5.9 per cent of GDP in 2011-12 and 5.7 per cent in 2012-13 (CBGA 2013). Corporate tax incentives provide proportionally greater benefit to companies with larger profits, who pay lower tax rates than firms with smaller profits.¹⁰ Also, most exemptions appear in indirect taxes, customs and excise duties, which account for around 80 per cent of total taxes foregone.

In addition, Indian exemptions are particularly oriented towards dynamic sectors deeply integrated in the international economy. In total, India has over 170 special economic zones in which tax incentives, among other benefits, are offered, often in the form of a deduction from corporate income of export profits (India Ministry of Commerce and Industry 2015). Software technology parks also enjoy special incentives, and Information and Technology enabled services and Business Process Outsourcing providers have seen tax rates as low as 7.4 per cent in 2006-07, averaging 15.98 per cent, far lower than the 33.21 per cent statutory rate (CBGA 2013: 17).

The tax system in India has changed since the onset of liberalization in the early 1990s, though it has not increased its capacity to any significant degree. There has been a broadening of bases, but a proliferation of tax incentives reverses any gains in universality. These tax incentives tend to be targeted at the wealthiest and most dynamic internationalized firms, worsening progressivity and weakening the impact of rising corporate income taxes that accompanied rapid growth in the 2000s.

Citizenship Regimes and Tax Capacity in Brazil and India

In India and Brazil, state-led development in the post-World War II period provided resources and leverage to key social groups who were poorly linked to the state. Struggles to gain political access during the 1970s and 1980s legitimated these groups as collective actors, and in the 1990s they consolidated their organizational and partisan strategies and articulated demands in the context of neoliberal adjustments. With renewed growth during the 2000s (slightly earlier in India), previously excluded groups sought policies and institutions that would provide them with stable linkages to the state. While this incorporation of excluded groups deepened democracy in both countries, the results of these efforts have been quite different with regard to state capacity as expressed in tax. In Brazil, popular sectors and middle classes formed a social coalition in support of efforts to expand tax revenues and make them more progressive, while in India, urban middle classes, caste, regional, and other identity-based movements formed shifting social coalitions that failed to support expanded state capacity in the form of tax revenues. The countries differ in terms of which excluded groups mobilized, what demands they articulated, and the mechanisms of incorporation that linked them to the state.

Brazil: Cross-class coalitions

The following paragraphs trace the extension of citizenship regimes in Brazil that occurred with the mobilization of excluded groups, their articulation of demands, and linkage to the state during the period from the 1970s to the 2000s. The military leaders who governed Brazil from 1964 to 1985 promoted industrial deepening at the same time as they shut down democratic politics and brutalized opponents. Middle classes,

¹⁰ Companies with more than Rs5 billion (approximately \$100,000,000) profit pay a tax rate of 26.26 while companies with less than Rs 10 million (approximately \$200,000) profit pay a tax rate of 21.67 (CBGA 2013).

including public sector workers and private urban professionals, had originally been a privileged segment within Brazilian state-led development, but they came under pressure from the military and especially the persecution of Institutional Act 5 of 1968. Middle class struggles for human rights brought them together with a wide range of social movements addressing citizenship and quality of life issues, including Afro-Brazilian rights, women's rights, environmental protection, neighbourhood services, and public health movements, among others (Escobar and Alvarez 1992). Their efforts came to be understood as the struggle for the "right to have rights" (Dagnino 2007).

Working classes also mobilized in opposition to the military. They bore the brunt of both repression and regressive growth strategies, even as deepening import-substitution industrialization expanded their role in the economy. Gradually, urban formal sector workers created a space for autonomous organizing and struggle, convened on the shop-floor to avoid the reactionary control of sector-wide unions, and expanded their workplace gatherings to include community demands for public services.¹¹ Strike waves in the late 1970s were especially vigorous in the manufacturing belt around São Paulo, where an alternative national federation of unions, Unitary Worker Central (CUT), formed in 1983.¹²

These popular sector and middle class movements increasingly learned to operate in tandem, and in the process established their legitimacy as collective actors supporting democratization. The military regime offered a unified target, and strikes and protests accelerated in the course of the 1970s. The gradual opening of electoral competition after 1973 oriented at least part of the democratization struggle into the party system, and the main aggregator of opposition was the Democratic Movement of Brazil (MDB, later PMDB),¹³ later joined by the Workers' Party (PT) which formed in 1980. The PT was a new kind of partisan organization in Brazil, considered an "anomaly" compared to previous political formations, as it emerged from a "solid base in labor and social movements," with much of "its leadership drawn from the labor movement" (Keck 1992: 3).¹⁴ As a party that emerged "from the bottom up" (Nylén 1997: 9) with "extra-parliamentary" origins (Meneguello 1989: 33), the PT was committed to the autonomy of its movement and union allies.

Once the military finally exited power in 1985, the 1988 Constituent Assembly included many of the demands of social movements and popular sectors. These demands called for expanded welfare state policies, including mandates for universal provision in health and education, expanded funding for housing and sanitation, as well as greater decentralization and participation (Draibe 2003: 69). These policies would require greater resources, but the first priority of the candidate who entered office in 1990, Fernando Collor, was to stabilize an economy facing runaway inflation. Though he was eventually removed for corruption in 1992, Collor began the liberalization of trade and deregulation of the Brazilian economy that would be accelerated under Fernando Henrique Cardoso's Party of Brazilian Social Democracy (PSDB) government from 1994 to 2002.

¹¹ The articulation of such demands and organizational efforts eventually birthed a New Union Movement joining urban worker struggle to neighbourhood and other popular movements (Seidman 1994).

¹² Parallel mobilization occurred among the rural poor in the Landless Worker Movement (MST) (Wolford 2010).

¹³ Elections were opened sequentially for Congress, Senate, local and state executive, managing the transition through the electoral system as a top-down and gradual one, the prototypical "conservative" transition to democracy (Power 1996: 57).

¹⁴ From the 1982 PT newspaper supplement entitled, the "PT and the Economy," the party established its roots in a worker and civil society alliance to advance socialism, "Socialism will be the result of worker struggle alongside other oppressed groups – women, Afro-Brazilians, indigenous, handicapped, elderly, gays – all fighting and winning against oppression and exploitation" (*Jornal dos Trabalhadores* 10/1982).

For those who had mobilized for democratization, the battleground shifted to the struggle over neoliberal adjustment. Cardoso earned convincing electoral victories on a base of middle- and upper-class supporters attracted by the technocratic and social democratic credentials of PSDB party founders, and defeating inflation extended his support to popular sectors who could finally begin consuming again (Baker 2010: 229–254). Backed by this coalition, he took advantage of expanded contributions tied to social policy outlays, fulfilling some of the demands of the 1988 Constitution and securing resources for macroeconomic stabilization.¹⁵

Yet, many previously excluded actors were increasingly repelled by neoliberal elements of stabilization. Social movements that had fought for democratization opposed Cardoso's efforts at centralization, as well as the extensive use of decrees and other executive privileges that removed aspects of policy from public debate.¹⁶ Formal sector and manufacturing workers opposed privatization and the deindustrialization that followed trade liberalization (Hunter 2010: 61–71), and those who had supported expanded social policies objected to the prioritization of macroeconomic stabilization.

Increasingly, the coalition of working class, social movement, and middle class actors who had mobilized for democratization articulated their demands in opposition to neoliberal adjustment. In the process, they drew closer to the Workers' Party (PT), which remained in opposition to the adjustment strategy of the Cardoso government (Roman 2012). As an indicator of the articulation of demands around neoliberal adjustment, shifts in the party system showed an increasing Left-Right orientation and polarization (Hagopian, Gervasoni and Moraes 2009). From 1990 to 1998, the Workers' Party steadily increased its support from 35 to 49 to 58 representatives, while Cardoso's PSDB increased from 37 to 67 to 99. Right-wing parties associated with the military regime disappeared and were absorbed into Right-wing supporters to the PSDB's neoliberal stabilization strategy.

When Lula finally won presidential power for the Workers' Party in 2002, it was not clear that he would be able to successfully institutionalize linkages to working classes, social movements and middle classes. To win the presidency, he had signalled that he would moderate,¹⁷ and the government maintained Cardoso's inflation targeting regime.¹⁸ Yet, a rebounding economy allowed the Workers' Party to pay-off IMF obligations early and provided much-needed policy space. The government adopted an expansionary macroeconomic stance beginning in 2006, as Lula won re-election to a second term, and the 2008 international financial crisis provided room to embark on counter-cyclical fiscal expansion, led by the Growth Acceleration Program inaugurated that year that spent a total of R\$1.7 trillion (US\$817bi) (Ministry of Finance 2014).

The expansionary fiscal strategy targeted precisely those previously excluded groups who had mobilized for democratization, articulated demands against neoliberalism, and

¹⁵ Fund for the Maintenance and Support of Basic Education (Fundef) and Unified Health System (SUS) and conditional cash transfer Bolsa Escola.

¹⁶ Social movements had demobilized somewhat as a result of democratization (Hochstetler 2000), but the PT self-consciously sought to mobilize its social movement allies as part of a "PT way of governing" (Couto 2000).

¹⁷ Lula promised in a letter addressed to the Brazilian people (but directed to capital markets) that he would respect Brazilian commitments to the IMF, which he ultimately paid off early, in 2005. He picked a businessman running-mate from the conservative Liberal Party (PL), and a slick campaign manager, Duda Mendonça, orchestrated a campaign labelled "peace and love" in the press. On election, Lula appointed a minister of finance from the most conservative wing of the party, Antonio Palocci, and named a Central Bank president from the banking sector, Henrique Meirelles of Bank of Boston.

¹⁸ The government set primary surplus targets even higher than required by the IMF, at 4.25 per cent of GDP and pushed through a cutback in benefits to public pensioners, provoking the first and to date most significant exodus of PT politicians, as Heloísa Helena was expelled/left the party to form the Party of Socialism and Freedom (PSOL).

now achieved policy and institutional linkage to the state through Workers' Party in government. Middle sector professionals benefited from employment and increased salaries and pensions, and government banking institutions further expanded consumer and housing credit to reach lower middle-classes (Barbosa 2010).¹⁹ The middle class increased to 55 per cent of the population, or 105.5 million people.

Even more significant were the efforts to expand the incomes and consumption of working classes and popular sectors. Successive increases in the monthly minimum wage, from R\$350 in 2002 to R\$560 in 2012 (US\$150 in 2002 dollars to US\$300 in 2012 dollars) in 2012 have improved conditions across the board, as many low-income jobs and pensions are indexed to minimum wages. Further extending the impact is the extension of pensions to informal sector workers, reaching 28 million people, as well as small farmer credits and agricultural extension that reached almost two million small producers (Melo 2008).

The flagship social policy, an income transfer programme called Bolsa Família, has absorbed and expanded various social programmes to extend income support, education, and health to low-income families. Bolsa Família reaches more than 40 million Brazilians and has been credited with cutting poverty, improving health outcomes, and improving education attainment (Castiñera, Nunes and Rungo 2009; Hall 2006). The percentage of the population in poverty fell from 26.7 per cent in 2002 to 10.9 per cent in 2012; the incomes of the poorest three deciles have annual average rates of growth of 7.2, 6.3, and 5.9 per cent (as compared to 1.4, 2.5, and 3.3 per cent for the highest deciles). This has produced a fall in Gini coefficients from 0.596 in 2001 to 0.519 by 2012 (Ministry of Finance 2012).

To social movements, the Workers' Party scaled up participatory innovations it had experimented with while governing at the local level during the 1990s (Lavalle, Acharya and Houtzager 2005). Participatory institutions had been mandated in the 1988 Constitution, and the Workers' Party had developed local level participatory budgeting into a global reference.²⁰ With national power after 2002, the PT significantly expanded participatory councils for public policy. Operating in 31 different policy areas, they include 1,350 members, with slightly more civil society (55 per cent) than government (45 per cent) representation, and undertake both deliberative and advisory tasks (Lopez and Pires 2010). As of 2005, there were over 300 thousand registered civil society organizations, and by 2009, they were receiving over \$R14 billion (US\$8bi) in government transfers.

In targeting working class, social movement and middle class actors, policies and institutions stabilized linkages to the state for previously excluded groups. This once again shows up in the party system. While class-based voting patterns had been somewhat muddled by the anti-inflation consensus of the 1990s, a class cleavage consolidated in which the PT polled better among poorer voters and in poorer regions (Roman 2012). The chart below shows vote intention for the PT in the last poll before the elections from 2002 to 2014, with voters categorized by income and education (Hunter 2007; Bohn 2014).

¹⁹ A housing construction and credit programme for the lower middle class distributed 2.6 million homes at a value of R\$199bi, approximately US\$100bi (Ministry of Finance 2012).

²⁰ These institutions included allocation mechanisms that targeted working class neighbourhoods in the redistribution of resources, "inverting priorities" that had long been dominated by elites (Avritzer, Marquetti and Navarro 2003), and participation among the poor tended to be higher than among the wealthy (Goldfrank 2011).

Table 3. Support for the Workers' Party, by income, education

	1998 ²¹	2002	2006	2010	2014
Income					
<2 Min. Wages	N.A.	N.A.	61	56	58
<5 Min. Wages	25	59	N.A.	N.A.	N.A.
2-5 Min. Wages	N.A.	N.A.	53	49	46
5-10 Min. Wages	23	63	44	45	37
>10 Min. Wages	25	60	41	39	26
Education					
Primary	24	56	69	57	60
Secondary	25	63	53	48	45
Tertiary	31	58	43	40	33

Source: Datafolha 2014, IBOPE 2013.

Workers' Party institutionalization of linkages to a cross-class coalition that formed in democratization and articulated demands in opposition to neoliberalism helps explain the significant expansion in tax capacity in Brazil that occurred from 1990 to the present. It also helps make sense of the partial increase that occurred in progressivity. What requires further explanation, however, is the failure to more significantly expand progressivity and the ongoing problems of a lack of universality.

Several factors explain these tendencies. First, the Workers' Party itself moderated and migrated to the centre. Moderate factions in the party had demonstrated greater capacity to manage coalitions and win elections during the 1990s,²² and electoral prominence pushed the average placement of PT legislators from 1.51 in 1990 to 2.27 in 2001 on a 10 point scale scored from Left to Right in surveys of legislators (Power 2008 as cited in Hunter 2010: 77).

In addition, once the Workers' Party entered government, it depended on more conservative coalition partners to secure legislative majorities. This was in part a function of the party system, which was characterized by high levels of fragmentation and volatility,²³ ensuring that the party of the president would never have an outright majority, with as low as 41 seats under Collor's National Renovation Party (PRN) 1990 government (Kinzo 2004: 27). The combination of a fragmented party system and a president with a legislative minority compelled the need for coalitions.²⁴ In response, Brazilian presidents build supermajorities of not-necessarily contiguous parties, a practice labelled "presidential coalitionism" (Abranches 1988).²⁵

Table 4 below displays the characteristics of the PT coalition in Congress over the Lula and Dilma presidencies. The far right column shows that the coalition per cent of

²¹ The 1998 election, won by Cardoso, did not require a second round, but all other years report 2nd round polls.

²² "Alliances forged by the PT in the municipal elections of 2000 reflect a move to include coalitional partners not on the Left while retaining former allies" (Hunter 2010: 99). Despite considerable grumbling, the only major break within the PT had been the departure of the PSTU in 1992 followed by another split in 2004 by the PSOL.

²³ Fragmentation and volatility were "over-determined by both electoral and executive-legislative institutional incentives" including a proportional representation electoral system in large, multi-member federal districts that create adequate room for small parties to secure representation. Further, with multi-round elections for executive office, politicians have an incentive to create small parties to offer as potential allies for second-round elections, producing a proliferation of parties varying across jurisdictions (Mainwaring 1999). The patrimonial and authoritarian practices of politicians inherited from the military regime and previous periods further complicates the party system (Marks 1993).

²⁴ Collor's coalition never rose above 50 per cent, and he was eventually impeached for corruption in 1992. Cardoso's government mastered the coalitional presidentialism strategy of governance, sustaining majorities well over the required 60 per cent for constitutional reforms – as large as 74 per cent during the 1999-2002 period, when it enjoyed the support of the PMDB, PFL, and PPB. Lula's coalition peaked at 70 per cent of the Congress from 2005-2007, when he was backed by the PL, PCdoB, PSB, PTB, PP, and PMDB (Figueiredo 2007: 190).

²⁵ This pattern is presumed to operate in parliamentary systems where coalition government is not uncommon, though it is also prevalent in presidential systems where governing parties fail to secure legislative majorities (Cheibub, Przeworski and Saiegh 2004).

Congress was a minority at first, until the PT committed itself to the coalitional presidency strategy after a vote-buying scandal in 2006 called the Mensalão.²⁶ In addition, below the number of seats and the per cent of the coalition, the chart shows the percentage of cabinet seats allocated to each coalition member.

Table 4. Workers Party Governing Coalition, 2002–2014

Lula I	PT	PL	PCdoB	PSB	PTB	PDT	PPS	PV	Coalition % of Cong	
Seats	91	26	12	22	26	21	15	5		
% Coalition	42	12	6	10	12	10	7	2		
% Cabinet	48	4	4	4	4	4	4	4	42	
Lula Post-Mensalão	PT	PL	PCdoB	PSB	PTB		PP		PMDB	
Seats	83	38	10	29	44		54		80	
% Coalition	25	11	3	9	13		16		24	
% Cabinet	44	4	4	9	4		4		13	66
Lula II	PT	PR	PCdoB	PSB	PTB	PDT	PP	PV	PMDB	
Seats	83	34	13	28	21	23	41	13	90	
% Coalition	24	10	4	8	6	7	12	4	26	
% Cabinet	44	4	4	9	4	0	4	4	13	65
Dilma I	PT	PR	PCdoB	PSB	PSC	PDT	PRB	PTC	PMDB	
Seats	87	40	15	34	17	26	8	1	78	
% Coalition	28	13	5	11	6	8	3	0	25	
% Cabinet	41	5	3	3	0	3	3	0	13	60
Dilma II	PT	PR	PCdoB	PROS	PSD	PDT	PRB	PP	PMDB	
Seats	87	33	16	20	44	18	10	40	70	
% Coalition	26	10	5	6	13	5	3	12	21	
% Cabinet	33	3	3	3	5	3	3	3	15	66

Source: From Figueiredo 2011: 190; Hunter 2010: 207.

The most important change was signalled by the inclusion of the PMDB, always among the top-three in seats in the legislature and an anchor of coalitional presidential strategies since the 1980s (Abranches 1988). From its origins as a partisan umbrella for a wide range of opponents against the military regime, the PMDB evolved into a catch-all vehicle. The PMDB “attempts, in the end, to absorb and administer all the interests and ideas of society. In second place, it offers to whoever enters that, in the event they can organize as a pressure group, they will earn the right to veto any deliberation or decision that offends their interests” what Nobre calls “PMDBismo” (Nobre 2010: 4). The inclusion of the PMDB, and other conservative parties such as the PRB, PP, and PR in the governing coalition limits the ability to implement more progressive reforms. In sum, the policies and institutions introduced by the Workers’ Party stabilized linkages between the state and previously excluded groups such as working classes,

²⁶ To govern, the PT at first built only a minority coalition of 218 seats. Legislative paralysis and the crisis of a scandal related to purchasing legislative votes, the “mensalão”, forced the party to revise its strategy, and it built coalitions that stretched across the ideological spectrum. The mensalão, or “big monthly payment”, scandal was so named for the monthly payments to deputies in exchange for votes, perhaps made necessary by the unwillingness to distribute cabinet posts to coalition partners.

social movements, and middle classes. This social coalition supported expanded revenue mobilization and greater progressivity, especially when linked to social outlays. Deeper changes to the tax system to deal with ongoing regressivity and a lack of universality were blocked, however, by the moderation of the PT and the necessity of accommodating conservative political and economic elites in coalitional governance strategies.

India: Shifting cross-group coalitions limit tax capacity

In India, the Congress Party had led the struggle for 1947 independence and dominated politics until the 1970s, during which time it built a support base buoyed by a nationalist and developmentalist consensus. In the heavily populated and therefore electorally-crucial north of India, Congress cohered a social coalition that combined a largely upper caste leadership with a mass base among lower caste and dalit (those who were previously labelled “untouchable” and officially labelled Scheduled Caste/SC) – a “coalition of extremes” as described by Brass (1984). To delay and deter potential rivals, Congress leaders were adept at absorbing “aspiring social groups” (Weiner 1967: 470), preserving an elite coalition of political-bureaucratic state actors, large farmers, and industrial elites benefiting from state-led development (Bardhan 1984).

This was labelled the “Congress system” by Kothari (1964), and it left room at its margins for alternative groups to mobilize around identities not incorporated in the coalition of extremes. The “Congress system...(is) a party of consensus and parties of pressure... These groups outside the margin do not constitute alternatives to the ruling party. Their role is to constantly pressurize, criticize, censure and influence it” (Kothari 1964: 1161). Such groups grew in strength as the Congress organization decayed, and emerged especially in regions where the social and political coalition undergirding Congress dominance was already weaker (Jaffrelot 2003: 4-5). For example, the earliest alternatives appeared in South India among the demographic majority of middle and lower castes, identified in the South as Forward castes and elsewhere as Other Backward Classes (OBC). They articulated demands for inclusion in the privileges of public employment and education enjoyed by traditionally dominant upper-caste groups.²⁷

The breakthrough for alternatives to Congress dominance happened in the North a decade later. Indira Gandhi was able to win a landslide election for Congress in 1971 with aggressive efforts to target the poor, symbolized by the slogan “garibi hatao” (abolish poverty) (Hasan 2012), but her strategy weakened the large-farmers that brokered Congress control in the countryside (Kohli 1987). This opened room to increased mobilization among middle peasant groups who had grown in resources and leverage as a result of the Green Revolution (Varshney 1998).²⁸

Eventually, the anti-Congress opposition united and won elections in 1977 led by the Janata Party (Kohli 1987: 87). The Janata coalition included Hindu nationalist Bharatiya Jan Sangh, the market-oriented Swatantra Party, the middle-peasant dominated Bharatiya Lok Dal,²⁹ and the OBC-oriented Samyukta Socialist Party.³⁰ This marked

²⁷ To tailor their demands to South India, they also opposed to the centralization and Northern-preference of the federal government and failure to accommodate regional and language identities. Their rapid rise in the 1960s signalled the potential for an alternative national coalition among middle sectors and other backward classes (Rudolph and Rudolph 1987). Arun Swamy contrasts the “sandwich coalition” strategy of Congress extremes of upper castes and dalits to the “anti-hegemonial” strategy of mobilizing middle sectors and other backward classes (Swamy 2010).

²⁸ As a symptom of weakening support, Indira's election was overturned by a judicial decision in 1975, and she responded by dissolving parliament and turning to autocratic rule during the Emergency Period from 1975-1977.

²⁹ Itself a coalition of Congress splinters (Congress (O), Bharatiya Kranti Dal, and Utkal Congress).

the arrival of previously excluded middle class, OBC, medium-sized farmers, and regional interests as collective actors, and they formed a similar anti-Congress coalition in the 1989 election of the National Front.³¹

For several reasons, previously excluded groups articulated demands for recognition and benefits targeted on the basis of caste, regional, and other ethnic identities.³² One reason can be traced to the decision of the National Front to implement the recommendations of the Mandal Commission, reserving 27 per cent of government jobs for OBCs.³³ This fulfilled one demand of the OBC movements but “divided the ‘backward’ from the ‘forward’ segments of the middle-peasant/backward-caste coalition, pitting peasant castes from different regions against each other” (Swamy 2010: 273). Allocations of reservations depended on regional balances of caste demographics and conditions, producing regionally-specific polarities of competition among different OBC, SC and other identity-based movements, many of which formed caste-specific political parties to campaign for recognition and benefits (Jaffrelot 2003).

This identity-based orientation of demands received further impetus as Hindu nationalists in the Bharatiya Janata Party (BJP) stimulated controversy around the destruction of a Muslim temple at Ayodhya, wooing upper classes that opposed protections for minorities and upper castes that opposed reservations. With the fragmentation of the party system preventing any outright majorities, partisan competition stimulated efforts by both the BJP and Congress to prime identity-based cleavages to patch together governing majorities of shifting, regionally-specific, caste-based partisan allies (Yadav and Palshikar 2006).

The final factor focusing demands on identity-based issues was the essential agreement of Congress and BJP on the strategy of economic adjustment. Both parties pressed liberalizing reforms, starting with the Congress government of 1991 and deepened under the BJP governments of 1996 and 1998. Their implicit agreement kept debates over stabilization out of the public eye and reforms passed by “stealth” – through bureaucratic regulations and easily-passed parliamentary measures (Jenkins 2000). At the same time, more difficult reforms were pushed to state governments, whose chief tools included “market liberalization” and “export promotion” (Sinha 2005), frequently emphasizing tax privileges and incentives for investment.³⁴

³⁰ To upper caste and middle class supporters dissatisfied with Congress, Swatantra and the Hindu nationalists offered an alternative that dismissed minorities and populist schemes. The BLD followed the leadership of Charan Singh in targeting rural intermediate and lower castes as peasants, “Charan Singh represented peasant proprietors and his entire strategy consisted in forging a kisan identity in which all agricultural workers would recognize their common interests and mobilize behind him” (Jaffrelot 2003: 281). Ram Manohar Lohia’s SSP targeted the same groups with appeals to OBC identities (Jaffrelot 2003: 260-62). Lohia wrote, “Many socialists honestly but wrongly think that it is sufficient to strive for economic equality and caste inequality will vanish of itself as a consequence. They fail to comprehend economic inequality and caste inequality as twin demons, which have both to be killed” (as cited in Jaffrelot 2003: 261).

³¹ The National Front was a coalition of regional parties that included the Tamil Nadu DMK, Andhra Pradesh Telugu Desam Party (TDP), and Assam AGP, who joined with the Jan Morcha, Janata Party, Lok Dal, and another splinter from Congress, Congress (S).

³² “The majority of the disadvantaged have not combined to establish class based parties, but have rather made their claims for equality and justice in the name of caste clusters or religious and tribal groups. These groups are often pitted against each other and fragment their own power” (Frankel 2004: xiv).

³³ As a per cent of India’s population, the Mandal Commission determined that Forward Hindu Castes and Communities were 17.58 per cent, Backward Hindu Castes and Communities were 43.70 per cent, Scheduled Castes were 15.05 per cent, Schedule Tribes 7.51 per cent, and Non-Hindu Communities were 16.16 per cent of which 8.4 per cent were backwards. The 27 per cent for OBCs was chosen to prevent the total reservations added to the 22.5 for SC/ST would stay below 50 per cent, a decision that still did not prevent controversy with urban middle classes, many of whom were from forward castes and rejected the particularism of reservations (Jajal 2005: 30).

³⁴ By 2012, over 800 special economic zones had been approved, with more than 200 in operation, featuring tax incentives, subsidized credit, and property give-aways, among other encouragements.

Over time, the BJP appeared to be more capable of forming alliances on a state-by-state basis, and its 1998-2004 government at times included as many as 24 parties. The BJP developed an ideological combination of Hindu nationalism and neoliberal market promotion with a base in upper castes and middle classes labelled by some as an “elite revolt” (Corbridge and Harriss 2000).³⁵ Middle classes rejected what they perceived as corrupt and populist policies of Congress attempts to appeal to poor voters and upper caste Hindus rejected preferential policies targeted at lower castes as a result of the Mandal Commission. The party cadre structure and its mass organization, the Rashtriya Swayamsevak Sangh (RSS) operate within a broader network of Hindu social organizations, the Sangh Parivar (Jaffrelot 1996). They have displayed the capacity to cultivate an internationally-oriented middle class who blend Hindu nationalist and pro-business agendas, as evidenced in the deep ties between Sangh Parivar and non-resident Indians (NRI). NRI international success is taken as an indication of “Hindus’ world historic mission,” and the donations they send home sustain the RSS and similar organizations (Gopalakrishnan 2006: 2808).³⁶ Further, RSS social efforts penetrate into poorer districts and provide information and campaign workers to extend BJP support among urban and rural working classes and poor (Thachil 2011).

The 2014 election landslide expresses the electoral potential of the BJP coalition of middle classes, upper castes, and subaltern groups. Such a combination had been successfully exhibited by new Prime Minister Narendra Modi during his term as Chief Minister of the state of Gujarat, as he overcame the traditional Congress coalition to oversee a period marked by both rapid growth and anti-Muslim programmes.

Despite the dexterity of BJP alliance strategies and its potential coalition, it was the Congress government that attempted to institutionalize mechanisms of incorporation for previously excluded groups from 2004-2014. Congress’s 2004 victory came somewhat as a surprise, as the Indian economy had already begun to achieve high rates of growth under the BJP, but the Congress-led United Progressive Alliance (UPA) won with allies such as the OBC-led Samajwadi Party (SP) and Dalit-led Bahujan Samaj Party (BSP), along with the Left Front of Communist Parties. With a mandate to respond to those ignored during neoliberal stabilization, the coalition partners agreed a Common Minimum Programme that stabilized linkages to previously excluded groups through institutions, policy, and legislation (Saez and Singh 2012).

The chief institutional innovation was the National Advisory Council (NAC), formally outside government, led by Sonia Gandhi, and composed of notable civil society activists with a mandate to provide policy advice to the government.³⁷ As an autonomous and appointed body, the NAC appealed to the cohort of middle class activists eager to provide input to public policy. On the other hand, when NAC

³⁵ Middle class dissatisfaction took one political shape in the 2013 Delhi Assembly elections when an upstart alliance of anti-corruption crusaders formed the Aam Admi Party (AAP) and formed the government. The AAP is an evolution from the Indian Anti-Corruption (IAC) movement that attracted upper caste and middle class support around a quasi-religious figure, Anna Hazare, in 2011, followed by widespread anger at government indifference and bungling of a high profile rape case in 2012 (Sitapati 2011). The leaders of AAP advanced a demand for an independent ombudsman as articulated in a Jan Lokpal Bill. Led by Arvind Kejriwal, the party won the Delhi elections and appeared to draw some support from the BJP base, but that support disappeared after the AAP had withdrawn from governing in Delhi and went on to win only four seats in the 2014 general election (Z News 2013).

³⁶ The BJP has also continued its locally adapted alliance strategies using cabinet positions, increased transfers to state governments governed by party allies, and innovative ways of disrupting rivals, such as creating the adivasi-dominated state of Jharkhand by dividing Bihar to “undercut the seemingly impregnable electoral fortress of Lalu Prasad Yadav’s Rashtriya Janata Dal (RJD)” (Swamy 2010: 283).

³⁷ Congress continues to wrestle with the challenge of institutionalizing incorporation of the poor and strengthening the party organization, “Significantly, the NAC rather than the Congress was the source of important ideas such as the Right to Information Act and the right to employment. The Congress had virtually outsourced the equity agenda to the NAC while the party contributed little in terms of either generating radical ideas or sending any concrete proposals to the government” (Hasan 2012: 134).

initiatives stalled with the first UPA government, the council had to be reconstituted for the second UPA government starting in 2009, and its lack of governmental authority or civil society mobilization meant that it could be easily disbanded when the BJP returned to power in 2014 (Arora and Kailash 2015).

Still, a number of NAC policy innovations stabilized linkages to previously excluded groups. The most important was the National Rural Employment Guarantee Scheme (MNREGA for the Mahatma Gandhi National Rural Employment Guarantee Act that created it), targeting small-farmers and landless workers, many of whom had provided the support base to dalit or OBC movements.³⁸ Passed in 2005, MNREGA provided up to 100 days of work to each rural household at a minimum wage rate, and the rate has been increased on average 81 per cent since 2005-2006. The programme was modelled on a state-level programme from Maharashtra, and by 2010-11 it had been rolled out in all districts that were not completely urban, reaching over 55 million people in 2013-2014. On average, households received 46 days of work per year, and 28 per cent of beneficiaries were scheduled caste and 23 per cent scheduled tribe, well above their population percentage. As a result of the programme, which displayed 47 per cent women beneficiaries, rural wages increased an estimated 5.3 per cent, and households began to receive between 7 and 12 per cent of their annual income from the programme (Ministry of Rural Development 2012: 22-25).

What distinguished the social policy regime pursued under the UPA governments was the legislation of social policy as rights, including legislation covering rights to information, food, education, compensation for land acquisition, and forest rights. Rights-based legislation offered a justiciable mechanism by which individuals could hold the state to account, meeting one of the chief demands of middle class activists hoping to weaken the control of local elites and corrupt or inefficient state bureaucrats (Jenkins and Goetz 2005).

Yet, Congress efforts at incorporation failed to unite a cross-class alliance in favour of mobilizing revenues to support its ambitious agenda. Segments of the middle class were unconvinced by the rights-based approach, especially as Congress's reputation was undermined by corruption scandals related to telecommunications licensing,³⁹ coal,⁴⁰ and construction for the 2010 Commonwealth games,⁴¹ among others. It became increasingly difficult to expect middle classes to support mobilizing greater revenues from leading sectors, especially as they were the core of the urban, educated sector that was leading Indian emergence in international exports of technology and services (Fernandes and Heller 2006). Middle class Indians oppose transfers for poor citizens as examples of "vote-buying" and efforts to target lower castes as "populism" (Kapur 2010: 143-170).

Mechanisms of incorporation initiated by the UPA governments remained targeted to identity-based ethnic groups, with variable impacts across regions depending on

³⁸ "The [Employment Guarantee Scheme] was the single-most important issue for the NAC... It proposed a legal guarantee of employment to every household in rural areas for 100 days for undertaking casual labour at the statutory minimum wage... From the outset, the scheme was limited only to the rural areas even though the manifesto had stated it would extend to urban areas as well" (Hasan 2012: 155).

³⁹ The 2G scam involved licenses for telecommunications spectrum in which the Telecommunications and IT Minister, Andimuthu Raja of the Tamil Nadu regional and OBC dominated DMK was accused of favouring firms in the bidding process (The Hindu 2015).

⁴⁰ Coalgate involved the allocation of coal blocks without competitive bidding leading to losses estimated at 186 crores rupees or approximately \$31 billion over five years to the benefit of some of the biggest energy and steel companies in the country including Jindal, Tata, and others (The Times of India 2012).

⁴¹ Construction for the games was behind schedule and over-budget, and revealed corrupt deals and kickbacks (The Hindu 2010).

political and caste configurations. For example, the UPA adopted what some labelled Mandal II by extending reservation of 27 per cent of seats to the premier federal government university system, including Indian Institutes of Technology, Indian Institutes of Management, and the All India Institute of Medical Sciences. As before, membership in an OBC category remained defined on a state by state basis (Thorat 2005). Such targeting is cheaper than universal policies, but it reinforced divisions among various subaltern groups, and failed to generate a stable majority cross-class coalition in favour of progressive expansions of state capacity. Those policies that passed as universal rights, such as rights to information, education and food, putatively altered the relationship between state and society, but were not supported with sufficient fiscal resources to make such rights a reality.

The result for India is a citizenship regime in which regional, caste, and ethnic actors have secured access to politics, but their mechanisms of incorporation operate through cycling and rival patterns of social coalition. Instability limits the potential for collective projects such as increasing tax capacity, and progressivity in revenues is blocked by the elite consensus around neoliberal strategies of growth and middle class opposition to redistribution. Decentralizing authority to states has intensified rivalry among different identity-based actors and across regions, producing incentive regimes that worsen both progressivity and universality in the tax system.

Conclusion

This paper explored the nature of citizenship regimes in Brazil and India and their relationship to state capacity. More specifically, it argues that state capacity to mobilize revenues is shaped by the way excluded groups legitimize new identities, articulate demands, and are incorporated through stable linkages to the state.

In Brazil, the pattern of industrial deepening pursued by military elites after 1964 strengthened the hand of middle class and popular sector actors, and they legitimated themselves as collective actors in their struggle for democratization. These same actors constructed demands around their opposition to neoliberalism, requesting protection from markets in the form of more extensive social policies and consolidating their linkages to the Workers' Party. When it came to power in 2003, it institutionalized mechanisms of incorporation for both middle classes and popular sectors. These strategies of incorporation were aided by a period of rapid growth whose pattern, which emphasized commodities and natural resources, contributed to preserving the middle class-popular sector alliance in support of tax capacity. Increases in tax capacity could not tackle ongoing problems of regressivity and a lack of universality, as the necessities of forming majority coalitions in the legislature provided veto power to conservative elites to preserve exemptions and special tax arrangements for commodity-exporting states.

In India, the groups excluded by the Congress system of dominance after independence included regional actors, backward caste interests, and a middle sector whose political incorporation failed to match the resources and leverage they had gained under state-led development. These groups formed alternative partisan and social coalitions against Congress to form governments in 1977 and 1989, though the pivot of politics began to shift towards a polarity between the Hindu nationalist BJP and Congress just as the country adopted neoliberal strategies of adjustment. As both Congress and the BJP parties adopted neoliberal strategies of adjustment, previously excluded groups framed demands for incorporation without challenging neoliberal stabilization, shifting political conflict to the competition to attract regional and caste allies with symbolic and targeted

appeals. When growth returned towards the late 1990s, the polarity of competition turned towards competing patterns of linkage to previously excluded groups. Congress sought to institutionalize a renewed and expanded coalition of extremes with social programmes for the poor and reservations to OBCs while the BJP pursued an alternative combination of Hindu nationalism and market deepening, proving more adept at attracting middle class and upper class social bases. The result has been ongoing fragmentation and rival strategies of institutionalizing linkages to previously excluded groups, thereby limiting support for expanded state capacity in the form of mobilizing tax revenues. There is little support for a more progressive tax system or for efforts to deal with uneven state-level incentives to export, especially as the prime beneficiary of technology and services export growth has been a middle class opposed to sharing benefits through tax.

The lessons of this study shed light on both incorporating excluded groups and state capacity to mobilize revenues. On the issue of incorporating excluded groups, the study highlights the role of policies, institutions, and political intermediaries, such as parties, in institutionalizing the incorporation of targeted social groups, and thereby deepening democracy. At the same time, the study highlights the need for careful attention to patterns of social coalitions if incorporation is to also generate support for increased revenues. Social coalitions are constructed in changes to citizenship regimes, which shift in response to the mobilizing efforts of excluded groups and the efforts to incorporate them in stable mechanisms of linkage to the political system by political elites. Cross-class patterns of alliance and incorporation appear to support broad collective action, as in the case of mobilizing revenues. Identity-based alliances can be part of expanding citizenship regimes, but they may not be as useful to build support for mobilizing revenues.

In addition to this lesson on the social determinants of tax capacity, there are also implications for other aspects of tax policy. In Brazil, elite opposition is manifest in the party system and the legislature, and blocks efforts to make the tax system more universal and more progressive. These elite obstacles are unlikely to disappear, but there is clearly room to improve direct taxes by more effectively capturing high incomes and incomes in currently privileged agro-export and commodity sectors. There is also room to create a more uniform indirect tax system by standardizing the value added tax and eliminating exemptions. These modifications would take pressure off over-dependence on social contributions, which are partly paid by the very populations meant to benefit from social spending.

In India, fragmented and shifting social coalitions are unlikely to change any time soon, but there may still be room to raise tax capacity, especially by taxing the dynamic and internationally competitive sectors that currently enjoy excessive incentives. Direct taxes are constrained especially by the small proportion of firms and individuals who contribute, making one of the most important policy interventions an increase in formalization, both to raise incomes over minimum thresholds and to bring more contributors into the tax net. In addition, there are additional important changes in closing loopholes on direct taxes to prevent evasion and avoidance, as well as eliminating state-level incentives that both weaken capacity as well as harm universality and progressivity. Of most importance at the state level is the virtual absence of any land tax, greatly limiting revenue from the rural sector. On indirect tax, greater formalization would make more transactions taxable, and greater standardization of indirect taxes across states would improve universality and decrease incentives for tax planning and obstacles to national integration.

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