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# **Piketty's Capital et idéologie: Could it inform a tax reform in post-Covid19 Brazil?**

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# Piketty's *Capital et idéologie*: Could it inform a tax reform in post-Covid19 Brazil?<sup>1</sup>

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## Abstract

In the light of Piketty's *Capital et idéologie*, this article reflects on Brazil's regressive tax structure and the crises induced by the Covid-19 pandemic. We present programmatic aspects of the book, anticipating how its tax justice proposals would be received in the Brazilian public debate. We question whether the current crises provide an opportunity for discussing structural changes like the reversal of the Brazilian tax structure.

**Keywords:** *Covid-19; tax reform; Thomas Piketty; progressive taxation; tax justice*

## *Capital et ideologia de Piketty poderia orientar uma reforma tributária no Brasil no pós-Covid-19?*

### Resumo

À luz de *Capital e ideologia*, de Piketty, refletimos sobre a estrutura tributária regressiva do Brasil e as crises provocadas pela pandemia de Covid-19. Apresentamos aspectos programáticos do livro, antecipando como as propostas de justiça tributária seriam recebidas no debate público brasileiro. Questionamos se as crises atuais oferecem uma oportunidade para discutir mudanças estruturais, como a reversão da estrutura tributária brasileira.

**Palavras-chaves:** *Covid-19; reforma tributária; Thomas Piketty; tributação progressiva; justiça tributária*

## 1. Introduction

Motivated by the recent publication of Thomas Piketty's (2019) ambitious *Capital et idéologie*, this essay aims to reflect on two current problems in Brazil in the light of angles and perspectives suggested by the book. The problems are Brazil's historically regressive tax

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structure and the triple crisis – health, economic and social – induced by the coronavirus pandemic. By harboring the management of these problems within the programmatic milestones offered in *Capital et idéologie*, the ultimate intent of this article is to probe the extent to which the twin problems not only raise the need for, but also the opportunity of, deeper social change. In particular, the unexpected temporal conjunction of such problems, with a debate on tax reform scheduled to take place in the National Congress while the country has been wrestling with the crises, suggested the hugely critical situation could be seen as an opening for discussing structural changes like the reversal of the Brazilian tax structure.

A brief presentation of the programmatic aspects of *Capital et idéologie* is made in Section 2, and its radical tax reform proposal, which is a nodal point of the broader project, is discussed in Section 3. Then, in Section 4, we review these prescriptions by anticipating how Piketty's tax justice project would be received in the Brazilian public debate, especially the countless obstacles that his progressive taxation agenda would face. In the concluding section, we suggest a reading key of the Pikettyian tax justice piece and draw attention to unprecedented opportunities for policy change that uniquely emerge in crucial situations, such as the triple crisis, not always seized upon, though.

## **2. Capital and ideology**

In his recent book, *Capital et idéologie*, the French economist Thomas Piketty offers a historical account of unequal societies and the strength of discourses and institutions that attempted (as they still do) to justify and promote inequalities, generally claiming that the latter serve the general interest. It also shows that acute and deep crises, such as the world wars in the 20th century, expose the dysfunctionality of various inequalities and undermine that claim, bringing up issues that were previously banned from the public eye because they were seen as eccentric or dangerous – such as universal suffrage, progressive income tax or exceptional wealth taxes. These, in their time, when translated into concrete institutions and policies, ended up normalized and accepted as legitimate.

Supported by the best available data from different countries, obtained from a considerable effort made by dozens of collaborators who gathered information from various sources, the author first turns his attention to pre-modern societies, describing their rigid social strata, before focusing on modern societies while they were building up their *proprietary* inequality regimes. He then documents in fine detail and even greater precision the evolution of inequalities in the last century and a half. In this more limited time frame, one fact stands out: the return of extreme inequalities in the contemporary era. From the Conservative Revolution of the 1980s to the present, a period he classifies as “hypercapitalism”, there was an explosion in the distance, measured in income and wealth, between the most affluent tenth of the population (especially the best-off hundredth) and the rest (mainly the poorest half). The phenomenon, observed in the advanced economies – more intensely in the United States, but also in Europe – brought the current world close to the deeply hierarchical unequal one of the late 19th and early 20th centuries. Less developed countries either stagnated at high levels of inequality or saw it increase as well. Needless to say, Brazil ranks among the most unequal of those for which data are available, second only to oil-rich countries in the Middle East.

Piketty seeks to differentiate his approach from others that he qualifies as deterministic, either for considering that there is an inexorable course of history – the target here are Marxist analyses – or a single possible set of tax and social policies, now aiming at neoliberal views such as Margaret Thatcher’s TINA (“there is no alternative”). In the past, as now, he asserts, there has always been and there will always be room for choices. The book refers to several past debates, opposing different perspectives, and political and social transformations that seemed impossible to occur but that ended up taking place, such as the abolition of slavery. Others were favored by chance or exceptional circumstances, such as the implementation of the progressive income tax. It also refers to different capitalist “socio-economic” systems, currently in place, and therefore to different inequality regimes, resulting from historical trajectories, which are the outcome of combinations of institutional inheritance, unintended consequences, undetermined events, but also, and crucially, political choices and action. After all, he reckons, major decisions that impact on the various dimensions of inequality are not of a technical or even economic nature, but rather ideological and political, having fundamentally to do with the type of society we would like to build and

the means to accomplish such end. Therefore, he advocates, decisions of this nature should be the subject of informed public debate and democratic deliberation, an expression he often uses in the book to refer to the need to subject choices to the scrutiny of well-informed collective decisions.

To illustrate the point regarding the room for intentional action, as opposed to inexorable forces or unavoidable technical solutions, the author refers to the extreme inequalities of the late 19th and early 20th centuries, which were strongly compressed throughout the 20th century thanks to a combination of crucial events (wars, Great Depression, inflation) and fundamentally political responses to them. By the way, in his view, the physical destruction of capital that occurred during the wars was not widespread (for example, it had no importance in the USA and very little in the United Kingdom), and was much less important than a set of public policies adopted by governments of the belligerent countries, for that matter. Likewise, he bets, the rampant inequality of the past three to four decades could be curbed or reversed. Would the scandal represented by that fact be the crucial event now? That question remains unanswered. In any case, now, as in the past, change requires a great deal of intellectual effort (which Piketty himself does when diving into history, statistics and narratives), in addition to political resolve. If in the remote past many redistributive projects in the field of progressive taxation were discarded, under the justification of putting at risk private property itself and its taken-for-granted contribution to the common good, the intense and growing current inequalities that threaten to find no limit if politically unchecked no longer have any relation to “social utility” (author’s terms).<sup>2</sup> As an evidence of the social evil represented by contemporary inequalities, Piketty compares the vigorous average rates of economic growth in force throughout the redistributive 20th century (for him, the period between 1914 and 1980) with those that prevailed in the recent period of very limited, exclusively concentrated on the wealthiest, prosperity – a situation that would exacerbate the general feeling of unjust inequalities.

The recent performance of social democracy – understood as encompassing, in addition to the social democratic parties, left, center-left and center parties of different shades

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<sup>2</sup> Social utility is sometimes referred to as the interest of all citizens, and economic growth would be an expression of it; some other times, though, the definition adds that the interests of the least favored citizens would have to be given special attention. And he often refers to John Rawls’ *A Theory of Justice* as displaying a perspective similar to his.

in different developed countries, including the Democratic Party in the United States and the Labour Party in the United Kingdom – is the target of blunt criticism. At this point, it should be noted that by packing them all under the same label, Piketty sees as a blank slate the historical and doctrinal differences between these parties, which, however, he seems to acknowledge when tracing specific trajectories. This is, for example, the case of the Swedish social democracy and the radical reforms it advocated and undertook when in power, on doctrinal bases very similar to those underlying the policies Piketty himself favors, as we describe below. He also ignores distinctions between current welfare states originating in social-democratic parties, such as the Scandinavians, and those originating in Christian-democratic parties, such as the German and the Austrian (thus disregarding social change enacted by the former, not so much by the latter), with remarkably different achievements. While overlooking these nuances, Piketty reckons that social democracy (always in his broad sense), despite having been an essential force in the progressive changes of the 20th century, has been unable to understand the present circumstances (basically, the social risks involved in globalization and the extreme wealth concentration) and respond to new challenges. The consequence of this failure is the meltdown of its traditional support base, among lower middle classes and workers,<sup>3</sup> increasingly seduced by seemingly more protective identitarian and nationalist agendas. By capitulating to the inevitability of globalization, in the terms it has occurred, and *proprietarianism* (this is the name Piketty gives to the ideology that sacralized private property), social democracy (it is always about that set of parties), while catering to the interests of the well-educated and mobile, would have abdicated to conceive and advocate for: (a) forms of socialization and circulation of property, such as “social ownership” and “universal capital endowment”, as alternatives to (the traditional socialist position of) state ownership of the means of production; (b) a platform for progressive taxation that includes a wealth tax; and (c) a transnational agenda to enable a fiscally just tax reform.<sup>4</sup>

While item *b* will be explored in depth in the next Section, items *a* and *c* deserve a comment, even if brief, within the scope of this short synthesis. Starting with *c*, the

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<sup>3</sup> This is largely documented in the book, along educational, income, wealth, and religious lines.

<sup>4</sup> It should be noted that in contrast to his previous book, *Capital in the 21st Century*, in *Capital et ideologie* Piketty takes his time to reflect on a positive agenda that goes beyond tax reform and includes institutional reform as well, with a strong accent on property rights.

articulation of a transnational agenda would be proposed as the possible escape route for restrictions imposed by globalization on social democratic daring, especially, though not exclusively, through inhibiting the redistributive potential of taxation. With regard to ideas of socialization and circulation of property, item *a* above, Piketty observes that, faced with the choice between private property and state ownership of the means of production, social democracy (always in his “electoral parties” sense) ended up opting for the former due both to the empirical failure of the experiment of real socialism and to the imaginative failure of social democracy. Alternative forms of ownership were not advocated for. However, the author’s references to some of these forms, in particular to what he calls socialization of ownership, are concrete experiments of co-determination, enshrined in European Constitutions as a result of political action, such as those observed in companies, especially in large ones, in countries such as Germany, Austria, Switzerland and Sweden. In practice these experiments are more in line with notions of co-management – that is, of direct participation of employees in some management decisions of large companies through a substantial percentage of guaranteed seats on their boards (50% in the German case) – than they are with share ownership.<sup>5</sup> The Swedish case, by the way championed by social democratic politics, combines a lower percentage (30%) with wider coverage (smaller companies are included) and greater decision-making power of labor representatives.<sup>6</sup> Still within the scope of the ownership issue, Piketty retrieves the proposal by Thomas Paine (2019 [1797]) – in a famous pamphlet of 1797, *Agrarian Justice*, and taken up by economists James Meade (1964) in the 20th century and Anthony Atkinson in the current one (2015) – of a social inheritance. This means that property of wealth, even if in principle private, should be subject to circulation, in order to make it, and the opportunities that its possession opens, at least in part universally accessible. Piketty recognizes in existing progressive taxes a form, however timid, of circulation of property.

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<sup>5</sup> Piketty (2019, p. 578) states that out of two alternative translations into French of the German system known as *Mitbestimmung*, namely *codétermination* and *cogestion*, he prefers *cogestion* because it seems to him to be more expressive in French. While both “co-determination” and “co-management” appear in the English translation of the book, co-management is more frequent, possibly following Piketty’s preference for *cogestion* in the original language the book was written. We use both terms here with a similar meaning. A broad definition of co-management is this one: “a particular form of social ownership of companies and of institutionalized power sharing between workers and shareholders” (Piketty, 2019, p. 578).

<sup>6</sup> The figures of shares of seats for workers on boards and for coverage of such arrangements that appear in this paragraph are displayed in three sections of Chapter 11 in Piketty (2019, pp. 578-82).

In concrete terms, Piketty proposes a series of measures in favor of an updated social democracy, to which, although aware of the loaded charge carried by the term socialism, he names “participatory socialism”. However, one should not infer from the term “participatory” any political connotation, as in “participatory democracy”, since it refers strictly to the idea of the broadest possible participation in the wealth collectively produced in contemporary societies. Actually, it involves participation in the control of companies (as in 1 below) and direct wealth ownership (as in 2 below). The main suggestions are as follows:

(1) Within the scope of what he calls socialization of ownership, he highlights the need to make the management of companies more democratic, giving greater decision-making power, and possibly shared ownership (not emphasized), to workers, exploring and expanding the relatively successful example of co-determination or co-management practices in Germanic and Nordic countries.

(2) Within the scope of circulation of property, he recommends, in line with previous proposals by Paine (2019 [1797]) and Atkinson (2015) and, we might add, at least one experiment (the British Child Trust Fund), the granting of a capital endowment, of high value (around 120 thousand euros in the French case), to every citizen at 25 years of age, in order to make an investment at his or her discretion.

(3) While recognizing that effective educational opportunities are largely unfairly distributed, as a way of democratizing the access to quality education, something that concerns him in particular and receives a good deal of attention in Chapter 17, he proposes, in this case in unprecedented ways, to equalize the amount of public resources allocated to the education of citizens of different socioeconomic backgrounds, making also room for education of youths and adults, and financial assistance to students at different stages of their academic trajectory.

(4) He stresses the need for transnational policies, having in mind especially, though not exclusively, European countries. For example, based on experiences of partial collaboration (e.g. the Foreign Account Tax Compliance Act, or FATCA),<sup>7</sup> it would be

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<sup>7</sup> The Foreign Account Tax Compliance Act (FATCA) is a United States federal law passed in 2010. The Internal Revenue Service, that country’s tax collection agency, explains that it “generally requires that foreign financial institutions and certain other non-financial foreign entities report on the foreign assets held by their U.S. account holders or be subject to withholding on withholdable payments.” Complementary legislation requires “U.S. persons to report, depending on the value, their foreign financial accounts and foreign asset”.



technically possible to create an international financial register, containing data from public and private entities, in order to better record the movable and immovable assets owned by nationals of different countries, especially billionaires, and to tax them adequately.

(5) Without detailing the modalities of organization of each of its constituent elements, Piketty defends a broad welfare state, which offers universal services of good quality and comprehensive social security, including a guaranteed minimum income for all analogous to a negative income tax.

At this point, it is worth remarking that the approach to education emphasizes allocating resources to individuals – a resourcist approach, however based on a detailed diagnosis of the spending gaps between rich and non-rich students and various stratifications in higher education, a situation which is prevalent even in public systems with relatively high average funding, such as the French one. This resourcist bias matches the treatment given to the welfare state, which, despite considered essential, is not the object of detailed analysis, either in terms of specific policies or systemic articulation among its component pieces. One wonders whether social democracy would not need to be updated also to deal with the new social needs of highly unequal societies in what regards organization of the welfare system. A blind spot that persists since Piketty's previous work, *Capital in the 21st Century*.

### **3. Progressive taxes on wealth, inheritance and income**

It is to proposals in the domain of taxation that Piketty devotes most of his attention. Among other reasons, because he is concerned with explaining how to fund his ambitious set of policies, and he does so through correspondences between taxes and interventions. Taxation is also a topic of particular interest in Brazil, at a time when two important circumstances coincide: the debate on tax reform scheduled to happen throughout 2020 and the unexpected arrival and prolongation of the health, economic and social crises, brought about by the Covid-19 pandemic.

The crises are expected to be devastating in several dimensions – possibly to an extent comparable to situations which in the past led to overturning taboos and introducing policies previously unthinkable. On the one hand, estimates of declining GDP around the world have been continuously adjusted downwards, in the Brazilian case contractions between 5% and 7% are projected, as of writing. On the other, pre-existing inequalities have not only been exposed but exacerbated on account of differentiated vulnerability in dimensions such as health (incidence of contagion, likelihood of contracting serious illnesses and facing death), economic (jobs and income insecurity)<sup>8</sup> and social (deficient access to health care, education, the internet). New inequalities of vulnerability – among those who may work from home and those who may not, those who work on essential activities and those who do not and so on – pile up on top of old ones. The management of the crises and what is already foreseen to be an extremely problematic post-crises invites reflection on desirable reconfigurations of society, in economic, social, environmental aspects. All over the world there is a consensus on the need for a gigantic injection of public resources to immediately support health care, income and jobs, and, in the aftermath of the crises, the need to carry out and induce recovery investments, which in many countries are already thought of to be transformational – in the European Union, for example, the Recovery Fund includes investments in digitization, alternative energy and health care. Everywhere, the extraordinary injection of resources will imply, at first, a substantial increase in public debt. However, in the Brazilian case, the impulse to economic activity that will ensue and the corresponding increase in tax revenues, if it is not mediated by a tax reform that promotes fiscal justice (i.e. progressive taxation on high incomes and wealth), may turn the funding of the deficit regressive: it will continue to rely on a highly regressive tax system and it will continue to favor the select strata of public bond holders. A first question arises: would the “triple crisis” be a critical situation, as the wars and the Great Depression were in the past, capable of inducing a real inflection in the

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<sup>8</sup> In a special report on Covid-19, based on an estimated 5.3% drop in Latin America’s GDP, the Economic Commission for Latin America and the Caribbean (ECLAC, 2020) projects that poverty will rise by at least 4.4 percentage points in the region, which means that another 28.7 million people will become poor in the region this year, so that poverty reaches 34.7% of the region’s population, or 214.7 million people. For Brazil, ECLAC projects poverty will increase from 19.4% to 23%-25.4% in different scenarios, while extreme poverty will reach between 6.9% and 7.9%, as compared to 5.4% in 2019. As for income inequality, ECLAC (2020) projects Gini coefficients increasing between 0.5% and 6.0% in the region, with the largest increases (more than 3.0%) in Argentina, Brazil, Ecuador, Mexico, and Uruguay – countries where high income and upper-middle-class groups will maintain their social position and earnings, while all other groups will suffer from income reduction and job losses, with 11.6 million more unemployed people in Latin American in 2020 compared to 2019.

debate on tax reform in Brazil, bringing to center stage the ever postponed issue of tax justice?

Piketty insists on how important progressive taxation was for the overthrow of inequality in the past century – what he calls the Fiscal Revolution of the 20th Century. He also provides evidence of the symmetrical correlation between the resumption of inequality (in the form of concentration on high income and wealth) and the dismantling of progressive tax systems that occurred thanks to the other revolution, the Conservative Revolution.<sup>9</sup> In his program of “participatory socialism”, he essentially proposes the resumption of progressive taxes on wealth, inheritance and income, at levels similar to, or higher than, those practiced by countries which are developed today, including the United States and the United Kingdom, in the postwar period and the golden years of welfare capitalism that followed.

He also proposes the elimination of indirect taxes, because of their notorious regressiveness. Only those that were useful to curb externalities would be maintained such as a carbon tax (but with a new formulation, which would include a progressive scale according to the level of polluting goods consumption and related emission of carbon dioxide). Apart from the latter taxes, the tax system would contain only progressive direct taxes: on property (including financial wealth), on inheritance (including donations), and on income.

Taxes on property and inheritance should be calibrated to focus only on excessive wealth and in a progressive manner. Their immediate objective would be to finance a social inheritance, the mentioned universal endowment, in line with the proposal of circulation of property. As for income tax, it would be directed to finance a robust welfare state. In the illustrative exercise presented in the book, a tax revenue of 50% of GDP would be composed of 1% coming from progressive tax on inheritance, 4% from progressive tax on wealth, and 45% from progressive tax on income. Currently in the OECD countries, the situation is very

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<sup>9</sup> The fraction of income retrieved by the richest tenth, both in Europe and in the US, decreased from around 50% during the *Belle Époque*, at the turn of the 19th to the 20th century, to 30% in Europe and 35% in the USA in the 1950s and remained at the same level until the 1980s, before taking off again, returning to 45%-50% in the US, and around 35% in Europe. A similar trend was observed regarding wealth, with a decrease of the fraction of property in the hands of the wealthiest decile from 85%-90% in 1900 to 50% in 1990 in Europe, and from 80% in 1900 to 60%-65% in 1980-1990s in the US, before starting to rise again in both sides of the Atlantic, to 55% and 75%, respectively. A key determinant of these movements was progressive taxation, both on income and on wealth. The highest marginal rates of income tax increased from negligible values in the early 20th century to 70%-80% in both European countries and the USA in the 1950s, before dropping to 40%-50% in the 1980s. A similar trend was observed for inheritance taxes in many countries.

different: the total tax revenue is, on average, close to 34% of GDP, with 13% coming from taxation on income and wealth, 9.2% from payroll taxes, and 11.5% of indirect taxes (Orair, 2015).

The insistence on complementing the income tax with the annual wealth tax is justified because the concentration of wealth is much higher than that of income – in fact, the poorest 50% have practically no net wealth, while the 10% most affluent hold between 50% and 55% of wealth in the UK or France, reaching the range of 70%-75% in the USA. Even more eloquent are the data for the wealthiest 1%, who concentrate between 20% and 25% of wealth in the UK or France, and no less than 35% to 40% in the USA (Piketty, 2019, pp. 782-3). In several countries, including Brazil, there are property taxes, but, in addition to exempting financial assets, they are generally ineffective and not very progressive; taxes on wealth in a broad sense have been discontinued in many countries in the wake of arguments related to global tax competition. According to Piketty, there is no way to dissociate increasing wealth concentration from the gradual disappearance of a wealth tax. As for income tax, in addition to abolishing loopholes and exemptions granted to capital income, the tax treatment given to individuals should be the same as that applied to corporate tax, to avoid optimization strategies (in Brazil, for example, the so-called *pejotização* of work, i.e. declaring typical labor earnings as if they were earnings from capital to obtain favorable tax treatment). Likewise, he proposes that social contributions receive the same treatment as income, with the same degree of progressivity, a criterion adopted by Denmark, for example.

Avowedly, the eventual application of these proposals depends on several details, but some preconditions appear inescapable to the author. The first one is that any discussion of tax reform must be preceded by the greatest possible degree of transparency in the current state of taxation: who pays and how much, who is exempt from paying, and why the exemption holds. A second precondition is the refusal to surrender to fatalism, i.e. the mental attitude of renouncing to aspire to tax justice on the basis that it would be impossible to achieve. Once this initial stage is overcome, the debate might then ensue.

#### 4. Obstacles to Piketty's proposals and the Brazilian debate

The author admits that, even in developed countries, transparency lacks while disappointment abounds. Ignorance about the current state of taxation is a result – partly intentional – of deficiencies in the legislation and in control systems of each country, but also of absence of international coordination in the matter. In times of international financial integration, it is simple to move intangible assets from one country to another, without leaving many traces.

However, Piketty insists that there is room for “progressive taxation in one country” to prosper to some extent. In fact, he argues, even without international collaboration, a medium-sized country – his example is France – in isolation can improve its mechanisms for measuring income and wealth from the most diverse sources, for example, using data management tools (e.g. big data and the like) and intelligent legislation (e.g. pre-filled tax returns), while simultaneously making sure taxes on income, wealth and inheritance become more progressive. The potential flight of financial wealth would be discouraged by the introduction of an *exit tax*, namely, a tax on the outflow of financial assets from the country where income is earned. And while a few countries, like the US, tax individuals based on citizenship and not residency, a proposal by the Democratic senator Elizabeth Warren for the US combines the introduction of progressive wealth taxes with a 40% tax rate on the wealth of those who renounce their citizenship. In the end, Piketty adds, if progressive taxes on excessive real estate wealth were to stimulate the massive sale of real estate, this would anyway end up contributing to deconcentration of property. Finally, different forms of exit taxes such as those just mentioned would be justified by the fact that wealth owners benefited from the country's economic, social, legal and fiscal infrastructure to accumulate their fortunes. A related Hobbesian-like justification is suggested by authors such as Murphy and Nagel (2005) and Pistor (2019) as a general assumption of legitimate tax collection: for these authors, private property and property rights need the state in order to exist in the first place<sup>10</sup> – it is the state that demarcates and enforces them through a set of legal and coercive institutes.

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<sup>10</sup> Actually, the relationship goes in both directions, as states need taxation to exist as well. *Capital et idéologie* tells the story of this amalgamation between property and regal powers in the *longue durée* and in many different places, beyond Europe.

Arguably, the inventiveness of people to avoid taxes is infinite – if Tuscan bread today takes little salt, it is because centuries ago a tax on salt caused bakers in the region to change their recipes (Gruber, 2013, p. 893). In view of the well-known ability that holders of financial wealth have to transform the nature of their assets and influence the direction of national legislation, it is worth asking how robust Piketty’s proposal would be in the face of the inevitable attempts to avoid (or evade) taxes. And if in developed countries, with strong state capacities, there is this concern, what to say of developing countries?

Recognizably, Brazil’s Receita Federal (Federal Revenue Bureau) is a structured body, with well-trained personnel and advanced information systems. However, to approve and enforce an exit tax, without which the tax on financial wealth would be ineffective, it would be necessary to ensure broad support in legislation, the judicial system, accountability and control bodies, besides international collaboration. And keep all those institutions protected from the influence of those most likely to be affected by the exit tax – and these are precisely the richest and most powerful Brazilians. As a partial counterpoint, we should mention the “repatriation” to Brazil in 2016 of part of the resources of nationals stationed in tax havens, thanks to international collaboration. In the context of strong fiscal restrictions in the country at that moment, this case illustrates not so much the application of an exit tax as the offer of an opportunity for regularization of evaded wealth, by means of a new law, the Special Regime for Exchange and Tax Regularization,<sup>11</sup> and timely access to information provided by the country’s adherence to international treaties.<sup>12</sup> Formal collaboration arrangements for the exchange of information, such as the Common Reporting Standard, is a development that should draw attention from all those concerned with prospects for wealth taxation.

Another difficulty recognized by Piketty is the particular unpopularity of the inheritance tax, explained, according to him, by a perception that its burden is greater than it

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<sup>11</sup> In Portuguese: Regime especial de regularização cambial e tributária (or Rerct).

<sup>12</sup> *Jota*, a website devoted to discussions on legal issues, points out that “the institution of the Rerct did not occur autonomously and for simple liberality or fiscal interest of the executive branch, but because of the signing of several bilateral treaties for the purpose of exchanging tax information between the Brazilian government and countries strategically influential in the financial market, such as those concluded with Switzerland, Cayman Islands, the Bermuda Archipelago, Uruguay, the United Kingdom and the United States of America. In addition, starting in 2018, Brazil should start exchanging information with a number of countries that have already joined or are in the process of joining the so-called Common Reporting Standard, a model developed by the OECD for the automatic exchange of information in a multilateral way” (Extracted from: <https://bit.ly/355YHqB>, consulted on April 26, 2020. Our translation).

really is, but also by a legitimate concern of small and medium-size wealth owners that, without liquidity, their heirs will need to sell the inherited property to honor the taxes due. Identifying its unpopular character is important, because a repudiation of one tax, or several, can undermine the legitimacy of the tax system. The precaution to be taken in this case would not be, says Piketty, to give up on this potentially fair and efficient tax, but to proceed with a “tax pedagogy” (our terms), making it clear that one of the main objectives would be taxing the very wealthy – especially those holding substantial financial assets. And when reforming the tax system, see to it that the parameters are well calibrated, including a reasonable exemption range followed by progressive rates on higher levels of wealth. In Brazil, there would be plenty of room to raise rates of such taxes (the Causa Mortis and Donations Transmission Tax, whose acronym in Portuguese is ITCD), which are low or very low depending on the state (between 4% and 8%, compared to the range 18%-40% in the analogous Estate Tax in the USA)<sup>13</sup> – in addition to paying attention to possible loopholes in legislation, which today give rise to “succession planning” (Gobetti, 2018, p. 41), beneficial for the heirs, not so much for society.

As already mentioned, in the scheme proposed by Piketty, more important than the inheritance tax is the progressive tax on net wealth or, more generally, the “property tax”, net of debts, which would include financial wealth. In conjunction with the inheritance tax, this wealth tax would aim at circulation of property and fund a universal social inheritance – as already mentioned, admittedly inspired in previous proposals by Thomas Paine and Anthony Atkinson. In contrast to the inheritance tax, which would require the legislator to make an effort to clarify its most sensitive aspects, as explained above, Piketty considers that the wealth tax, as long as it targets large fortunes, would easily be agreed upon, given a widespread perception that the current concentration of wealth is extreme. The obstacle here would be fear of the vanishing of wealth – a problem often alleged, generally by critics of the progressive tax agenda, of flight abroad of capital owners with their respective capitals – and the low expectation of success of a bill that proposed some type of exit tax, although even in Brazil financial transfers outwards or inwards are already subject to taxation. It should also be added that few countries, perhaps only two – Brazil and Estonia – do not tax

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<sup>13</sup> Source: Internal Revenue Services. Available at: <https://www.irs.gov/instructions/i706#idm140500582298176>. Consulted on: June 10, 2020.

capital income such as profits and dividends, so the alternative for fleeing capitals would be tax havens, which have been increasingly, though not yet spectacularly, under the pressure of international institutes such as the FATCA and the Common Reporting Standard.

In any case, Piketty's proposals are to be challenged by lobbies of those who own properties. As in any other period in history, wealthy groups seek to defend and justify the status quo of high (and increasing) inequalities using various means, summarized by Piketty in the terms "discourses and institutions", widely documented in the book. The theory of optimal taxation,<sup>14</sup> a research program whose influence peaked in the 1970s and 1980s, ended up feeding – deliberately or not – discourses favorable to the reduction of tax rates, especially on capital, and the reduction and uniformization of tax rates on goods and services.<sup>15</sup> Simultaneously, the Conservative Revolution broke out, gaining maximum political expression in the governments of Reagan and Thatcher, but then never again stopping to influence the political debate, and not only in the United States and the United Kingdom. Alongside optimal taxation in microeconomics, theories of globalization thrive in international macroeconomics, despite fragile evidence, depicting an inevitable tax competition and the need for capital tax exemption, yet another reason to leave capitals alone.<sup>16</sup>

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<sup>14</sup> A succinct explanation of the nature of the optimal taxation theory is given by Murphy and Nagel (2002, Pos. 1634), covering the income taxation aspect, which is also valid – we add – for other types of taxation: "Its central question is what level of taxation would best promote welfare (either weighted in favor of the worse off or not) given the welfare losses caused by the behavioral effects on income?". Supported by hypothetical-deductive mathematical models, the theory of optimal taxation takes into account potential trade-offs, such as between efficiency and equity, especially when considering the reaction of economic agents to taxes. Examples: Does an increase in income tax reduce the labor supply? Does an increase in the capital tax rate reduce savings? The results of the models are formulas with several parameters, some of which are notoriously difficult to measure in practice – such as the elasticity of labor supply to changes in the income tax rate. The theory allows interpretations which ended up being privileged among neoclassical economists, e.g. that increased tax drastically reduces labor supply.

<sup>15</sup> According to Murphy and Nagel (2002, Pos. 1670): "It is possible that, in its short-term practical consequences, economists' interest in the behavioral effects of taxation has done more harm than good to the cause of social justice." New generations of neoclassical economists, such as the group coordinated by Piketty, but also some of the researchers who had themselves developed the theory of optimal taxation, such as Anthony Atkinson, Joseph Stiglitz and James Mirrlees, revisited the models and challenged many of their own assumptions, methodologies and conclusions. The tangible results of such review are the clearly pro-taxation positions of Atkinson and Stiglitz, as well as the conclusions of the Mirrlees report, which put different results of the original theory into perspective. The revisited version of the optimal taxation theory does not seem to have been properly assimilated in the Brazilian debate, with the exception of Sergio Gobetti and Rodrigo Orair, in their numerous recent works, and of some other authors, including those who collaborate in the volume organized by Afonso and colleagues (2017).

<sup>16</sup> Like the theory of optimal taxation, the theory of globalization did not see its predictions of race to the bottom of global tax rates endorsed in practice – OECD countries continued to increase their revenue even after the



Some of these theses were raised during the 1987 Brazilian Constituent Assembly, when a technically consistent project of introducing frankly progressive taxation was presented, which included the then non-existent wealth tax, called “net wealth tax” (*imposto sobre o patrimônio líquido*). At that moment, Brazil was lagging in terms of progressivity and there was some expectation that the new Constitution would correct this distortion (Fandiño; Kerstenetzky, 2018). Despite the fact that the advanced economies were, in the wake of the Conservative Revolution, reducing the progressivity of their tax systems throughout the 1980s, Brazilian backwardness in this respect (progressivity) was nonetheless significant. The intense political mobilization of business and regional lobbies to counter the progressive agenda, including by instrumentalizing “regressivist” theories such as those mentioned above, did not go unnoticed (*idem*). Signaling the correlation of forces that prevailed in tax matters (in stark contrast to that which prevailed when it comes to matters related to social rights), the end result was that the principle of progressivity was scarcely and only vaguely mentioned in the 1988 Constitution. As an illustration, still in 1988, only a few months after the Constitution was enacted, the José Sarney administration was able to pass regulation reducing the maximum income tax rate by 20 percentage points – from 45% to 25%.

To counter regressivity in a way that does not require detailed specification of tax rates, Piketty proposes in his book that Constitutions establish as an entrenched clause the principle that the contributory effort on high incomes should never be lower (preferably higher) than that of lower incomes, and determine that governments publish the annual amounts of taxes actually paid by different income and wealth classes. It is not a revolutionary recommendation. But Brazil’s tax system fails this simple test: Zockun (2017) calculates the ratio of the contributory effort (the share of total taxation divided by the share of total income) of the 10% poorest and that of the 10% richest to be over 2.3 in 2008/2009, i.e. the contributive effort of the poorest is two times as much as that of the richest. And this is a predicament that is not as widely known as it should be.

All in all, in Brazil, beyond self-serving discourses against progressive taxation, there is a combination of lack of transparency of the tax situation, with a misunderstanding of the

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Great Recession, *et pour cause*. However, it was not progressive taxes that expanded; in particular, corporate tax rates have declined; even so, progressive taxes continue to be more important than regressive taxes in financing the welfare state. See: Kerstenetzky and Guedes (2020).

nature and functioning of the various taxes. To such an extent that, even in progressive circles, an agenda favorable to progressive taxation of wealth, inheritance and income is not always welcomed or is met with dismissive skepticism. Income is confused with wealth; there is no clarity about the degree of concentration of income and wealth in Brazil (to this, the outstanding magnitude of land concentration might provide some reference); smallholders and the middle class fear that progressive taxes on wealth, inheritance and income will be harmful to them – not least because, among the non-poor, it is on these groups that taxes are levied in the country; there is a (illusory) belief that only the social investment and expenditure side should be guided by progressivity (but income inequality has a strong component of concentration at the very top, cf. Souza, Medeiros and Castro, 2015); the economics profession in Brazil does not yet seem to have assimilated neither the lessons of the revision of the theory of optimal taxation nor the controversial aspects of the theory of globalization in the face of democratic demands for social spending (which have been expanding world over, cf. Kerstenetzky and Guedes, 2020) and of the room for action within each country, as well as for some transnational coordination, as suggested by Piketty.

It is in this relatively hostile environment that an attempt would be made to seriously introduce into the debate the types of taxes – the progressive inheritance and wealth taxes – privileged by Piketty. In view of that hostility, Piketty's additional suggestion of eliminating the diffuse consumption taxes, which offer a solid tax base and the tranquility of invisibility (in fact, no one seemed to pay much attention to the "tax clock" proposed by businesses associations in Brazil) would verge on delirium. However, Piketty may disdain indirect taxes altogether – admittedly regressive, even when well structured – because of the speculative and normative nature of the exercise he proposes, which is to outline a full-blown "participatory socialist" agenda. In fact, he is not concerned with clarifying the transition from the current system – in which indirect taxes are of great importance even in OECD countries so much so that it would be difficult to give them up in the short term without compromising governments' revenues and the constitutive policies of the welfare state in particular – to his ideal world. Furthermore, the weight of these taxes has been growing in those countries, a fact that makes the advocacy for their elimination even less likely to succeed.

Another consideration is that, like Piketty, other authors support a transnational approach to the tax-and-transfer system, but, unlike him, they abdicate an ideal taxation, thus accepting the injustice of the regressivity of indirect taxes, in favor of other more important objectives, in their understanding. For example, to finance their favorite policy – a European universal basic income –, Van Parijs and Vanderborght (2017) defend the use of value added tax, by arguing that it is already harmonized for the whole of Europe. Pragmatic approaches such that one find a certain normative foundation in Murphy and Nagel (2002, Pos. 1659), when they say: “Results and not tax rates are what matters”, that is to say, we can tolerate certain injustices on the side of taxation or social investment provided that the combined result of the tax-and-transfer system is sufficiently redistributive. We might however counter that there has been information (which was previously lacking) on consistently extreme and increasing concentration of income and wealth at the top despite high and increasingly redistributive social spending (Kerstenetzky; Guedes, 2020) – which by the way explains the surge in contemporary inequalities.

In a similar direction as that of Van Parijs and Vanderborght (2017), some scholars refer to the welfare state financed in a way that is not necessarily progressive – in reality, less and less so – as a kind of socialism within a single class, say, the 90% less wealthy.<sup>17</sup> An argument of this nature might be more acceptable in societies that are not too unequal, or not as unequal as Brazil, where the poorest individuals disproportionately contribute to fund public goods and their own benefits<sup>18</sup> and where consumption is overwhelmingly private – in contrast with more egalitarian societies where a large part of consumption is public (education, health care, transport, culture, leisure, and various infrastructures) and the income of individuals, besides being on average high, is not so unequally distributed. But even in the richer and more redistributive countries, the last thirty to forty years have witnessed an increase in the share of both income and wealth that has accrued to the wealthiest stratum of the population – the case of Brazil is only one of reaching the extreme stages of such a predicament, as the feebly taxed 1% richest get 22%-28% and the top 10% get 50%-58% percent of all income, both however with an effective tax rate lower than 10%, while the

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<sup>17</sup> Anton Hemerijck, in personal communication with one of the authors.

<sup>18</sup> According to Zockun (2017), whereas the 10% poorest families on average pay taxes which represent more than half of their family income (53%, of which 47% from indirect taxes and 6% from direct taxes), the richest tenth on average pay only 23% (10% from indirect taxes and 12% from direct taxes).

0.1% richest, who get 10%-12%, pay less than 6% (Pinheiro; Waltenberg; Kerstenetzky, 2017). It might then be added that, by abdicating the additional resources from progressive taxes, the pact underlying the 1988 Constitution, in addition to giving leeway to concentration at the top, ended up limiting the implementation of several social rights nominally guaranteed therein.

While in countries less unequal than Brazil the weight of more progressive taxes in the tax structure is about one third, in Brazil the tax burden of 33.4% of GDP in 2014 was composed of (only slightly progressive) 8.1% of income and property taxes, i.e. less than a quarter of the total. Meanwhile, indirect taxes represented 15.7% of GDP. In the end, the irony is that, while it is impossible to defend the status quo, it is also very difficult, at least in the short term, to abdicate indirect taxes, which represent almost half of the total revenue collected. For this reason, it seems wise to insist on the agenda of starting to revise the weight of indirect taxes, that is, in reducing the dependence on fiscally unfair taxes – and the different reality of the OECD, as well as the normative horizon pointed out by Piketty, could well serve as guidelines of the possible as well as the desirable.

Would the health crisis and the expected resumption of the discussion on tax reform be a possible critical time for pushing for a just reformism? If we were to follow the mentioned guidelines, the agenda for a just tax reform, in a few strokes, should aim at a progressive tax system via: (1) diminishing the weight of indirect taxes, one benchmark being at most one third of the tax burden (OECD); (2) enhancing the progressivity of direct taxes by introducing horizontal equity (equal incomes, equal tax rates; so no loopholes or exemptions to capital income or different tax treatments to different capital incomes, e.g. financial capital incomes); (3) progressive tax rates on social contributions (and increased progressivity of income taxes with new tax rates on higher incomes); (4) progressive taxation of high wealth and inheritance. To get there, the very first crucial steps would be to overcome dismissive skepticisms (by understanding progressive taxes and their functions, as well as being informed of successful experiences) and engage in enhancing transparency and publicization of the information gathered. Opportunities seem opened by the country's adherence to international treaties, as well as the triple crisis and the urge to reconfigure the future that came along with it – incidentally, the latter feeling seems very much in the air world over.

## 5. Final remarks

If proposals such as Piketty's uncompromising tax justice can provoke a shrug because of its apparent impracticality, or even because they are not accompanied by instructions for their implementation, they also produce discomfort. It is difficult to ignore them once one has been exposed to the arguments. There will be those who consider the general orientation of fiscal justice to be out of question, either because they deny the importance of inequalities, or continue to believe that inequalities can be alleviated despite tax injustices. But those who care about inequalities and understand that they relate to concentration at the top of the distribution of income and wealth will not be indifferent to Piketty's proposals, even if the latter still awaken doubts of a practical nature. They will agree that the fiscal progressivity agenda logically follows from the diagnosis of inequalities that are intensified by the take-off of the very wealthy. And also for entirely logical reasons, regressive taxes should be eliminated while progressive ones should be implemented, quite possibly in the way suggested and to meet the objectives put forward by Piketty: to spread property and to finance the welfare state.

Even if it is accepted that the exercise is mainly logico-speculative, the argument is uncomfortable enough to prevent one from slipping entirely to the other side, that of the inevitability of inequalities: there is abundant historical documentation in *Capital et idéologie* indicating that there is nothing natural in the processes that resulted in contemporary inequalities; history records a plurality of occasions when public debates took place and political decisions followed, and where information and its publication were crucial. Furthermore, critical circumstances were identified as moments that favored more profound transformations.

Beyond the concrete proposals, to which arguments and contingencies might be interposed, in fact Piketty insists that decisions will always differ because they are subject to circumstances of time and space, one message stands out and it is the incentive for economists to join and contribute to the political conversation on fair socio-economic and taxation systems, especially by searching for and publicizing data, engaging with history and social sciences at large, and proposing narratives and interpretations. This effort, he reckons, is needed to help countervail one fundamental form of injustice which is the refusal to engaging

in public discussion on these matters.<sup>19</sup> In this spirit, he suggests, several of the obstacles that might be opposed to a fiscal justice agenda should be taken as challenges to inventiveness and avenues for political action. In the end, more than specific instructions, what emanates from Piketty's reading is a daring, though far from inconsiderate, attitude: the conviction that the move towards greater fiscal justice is possible because historically it was possible; that the intellectual effort to understand social reality and to express it are *sine qua non* conditions for change; and that while it is evident that democratic decisions cannot be replaced by technical decisions, there is no technical impossibility for the design of a tax justice agenda, the decision to design and implement it is of a political nature (which does not mean it is simple!).

When considering the case of Brazil, we wonder the extent to which the crises ignited by the pandemic might be framed as one of those critical moments in history. The end of the military dictatorship, which was accompanied by an enormous repressed demand for rights, was one of those moments, when, as if by a miracle, social rights were inscribed in the Constitution (but not progressive taxation). If several crises throughout our recent history have not been able to promote the fiscal justice agenda as a priority for Brazilians, is perhaps the health crisis an opportunity not to be missed? That it highlights and exacerbates the problem of inequality, there is no doubt. It is also unquestionable that the crisis requires immense resources for its long confrontation, not least because of pre-existing inequalities it contributes to exacerbate. That it will require that the necessary resources come from social groups that own them, there also seems to be no doubt. How then to proceed with the debate on the already scheduled tax reform, ignoring the question of progressivity as it seems to be underway?<sup>20</sup> If there is anything useful to be taken from such a devastating crisis, it seems to be to awaken us from the dogmatic dream of proprietarianism, which has done so much harm to Brazil and world over.

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<sup>19</sup> This much Piketty declared in an article he published at *Le Monde*, and republished at *Internazionale*, in June 2020. See Piketty (2020).

<sup>20</sup> As noted by a reviewer, the Bernardo Appy proposal under consideration by the Brazilian Congress does not propose anything in the direction of increased progressivity. It concentrates on the simplification and enhanced efficiency of the tax system, on account of its likely impact on economic growth. But, as the reviewer correctly reminds us, an argument of this kind could also be made regarding progressive taxation, i.e. that it meets not only justice but also efficiency requirements. In fact, the historical record shows higher growth rates during the era of the "fiscal revolution", as Piketty names it, than in the decades following the "conservative revolution".

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