



THE ROLE OF BRAZILIAN CIVIL SOCIETY IN THE TAX REFORM DEBATE: INESC'S TAX CAMPAIGN

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I – Introduction

This case study examines how Brazil's Institute for Socioeconomic Studies (INESC) and its partners formed a coalition movement that would eventually block a regressive tax reform bill and bring unprecedented attention to the role of the tax system in fostering social justice.

INESC, a nongovernmental organization established in 1979, follows two lines of action in all of its projects: strengthening civil society and expanding social participation in spaces where public policy is deliberated. In 1991 INESC also began to carry out budget monitoring activities to strengthen its influence on state officials who determine public policy.

This budget monitoring work made INESC acutely aware of how the tax burden in Brazil has increasingly been placed on those who can least afford it and thus contributed to inequality. In spite of Brazil's remarkable economic growth – a rise that has continued uninterrupted for nearly two decades – the country remains one of the most unequal in the world.

When a tax reform was proposed that would exacerbate the situation by giving additional tax breaks to the wealthy while eliminating sources of revenue that support social policies, INESC decided to act. Throughout 2008 and 2009, the organization led the opposition to the Constitutional Amendment Proposal on Tax Reform sent to Parliament by the Executive, considering this a critical opportunity to raise a broader debate within Parliament and society.

The case illustrates how INESC used its budget monitoring skills to bring popular attention to the important and technically complex issue of taxation. After describing the strategies used by the campaign and the impact that it achieved, we consider the organizational and contextual factors that played a role in its success.

II - Brazil's Unfair Tax System

Brazil is one of the ten largest economies in the world,² but also one of the most unequal. The Gini coefficient, which measures inequality on a scale of 0-1, declined in Brazil from 0.601 in 1995 to 0.521 in 2008. In spite of the improvement, the concentration of income in Brazil remains among the highest in the world.³

The Brazilian tax system does not help to reverse this situation; rather it has been an instrument for concentrating income, swelling the fiscal burden of the poor while curtailing that of the wealthier classes. Income tax, a potentially progressive tax, has instead placed an ordinate burden on wage income. Meanwhile the wealthy have used tax planning and exemptions to exploit exemptions on income from capital such as dividend payments. Furthermore the increase in the Brazilian tax burden from 27 percent to 35 percent of GDP between 1995 and 2009 was largely the result of an increase in taxes on consumption, which disproportionately affect the poorest in society.

According to a study on the basis of the Family Budget Survey (*Pesquisa de Orçamento Familiar*) by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*) in 2003, those who received up to twice the minimum wage spent 45.8 percent of what they earned on consumption

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² International Monetary Fund (IMF), "Nominal GDP list of countries," *World Economic Outlook Database*, April 2012, available at: <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

³ United Nations Development Programme (UNDP), *Human Development Report 2006* (New York: UNDP, 2006), available at: <http://hdr.undp.org>.

taxes, while for households with an income greater than 30 times the minimum wage, the share of taxes on consumption only came to 16.4 percent.⁴

Various observers have pointed to the inequity of Brazil's tax system. According to Guilherme Delgado, the imbalance in the tax system is due to high taxation on production and thus on consumption, with low taxes on income, profits, and financial surpluses.⁵ Several authorities in the Brazilian government, such as Ana Lúcia Starling, agree.⁶ She points out that the presidentially appointed Socio-Economic Development Council (*Conselho de Desenvolvimento Econômico Social*) brought the question of tax injustice to light: the "poorest pay more taxes than the rich in Brazil, the system taxes those with less income, because it is focused on indirect taxation, charging taxes on consumption."⁷

The Brazilian tax system is framed by the 1988 Federal Constitution, which established a set of tax principles that constitute the basis for building a tax system based on fiscal and social justice.⁸ The Federal Constitution determines that the tax system should be based on solidarity, equality, universality, and ability to pay. It further declares that taxation should be direct, personal, and progressive.

The Constitution also establishes that taxpayers and consumers must be informed of taxes levied on goods and services. But Brazilian taxpayers do not perceive themselves as an active, interested part of the budget process, and do not draw any clear and direct connections between tax payments and the allocation of resources to ensure that quality public services are provided and socio-economic rights are fulfilled.⁹ The tax system therefore poses a particular challenge to Brazilian civil society. To understand it demands rare technical knowledge. But even those who possess that knowledge are often confounded about how to raise awareness because of the way most taxes are in Brazil are hidden: the bulk of their tax burden is embedded in the prices of goods and services through indirect taxes.

The constitutional provisions concerning transparency, fairness, and justice of taxation require a complementary law, which to date has not passed. Even worse, there have been several unsuccessful attempts to amend the Constitution through "tax reform" proposals, resulting in a series of infra-constitutional laws counter to the spirit of the Constitution. During the eight years (1995-2002) of President Fernando Henrique Cardoso's government, infra-constitutional legislation was gradually amended, undermining or invalidating the basic principles of tax reform contained in the 1988 Constitution, and thus compounding the inequity of the Brazilian tax system. According to the labor inspector of the Brazilian Revenue Service, Pedro Delarue, "From the 1990s, the Brazilian tax system walked in the opposite direction of the principles established in our Constitution. The amendments made to infra-constitutional laws eventually helped shape an extremely unfair tax system characterized by regressive and indirect taxes."¹⁰

These amendments transferred the tax burden to labor income and to the poorest by changing the profile of tax collection in Brazil. The amendments were made to ensure the free flow of financial resources. According to Revenue Service labor inspector Marcelo Lettieri, who was a Coordinator-General for Research, Forecast, and Analysis for the Brazilian Federal Revenue Service, "The current tax system

⁴ In April 2012, the value of the Brazilian minimum wage was R\$622.00 (per month), the equivalent of US\$330.85.

⁵ Guilherme Delgado, interview by author, 25 April 2012. Delgado, an economist, is a retired university professor. He was an expert at the Institute of Applied Economic Research (*Instituto de Pesquisa Econômica Aplicada* - IPEA). He is currently an advisor to the Catholic Church pastoral associates. He took an active role in the Movement to Defend Social Rights under Threat by Tax Reform.

⁶ Ana Lúcia de Lima Starling, interview by author, 27 April 2012. Starling is currently director of the Department of Strategic Planning and Investment at the Ministry of Planning. While draft law PEC 233/2008 was being debated she was director of the Secretariat of the Socio-Economic Development Council (CDES), an organization linked to the Presidency and Coordinator of the CDES Observatory of Equity.

⁷ CDES, "Indicadores de Equidade do Sistema Tributário Nacional: Relatório de Observação nº 1 (Equity Indicators in the National Tax System: Observation Report no. 1)," July 2009, available at:

<http://www.cdes.gov.br/documento/1494604/indicadores-de-equidade-do-sistema-tributario-nacional-relatorio-de-observacao-n-1-062009-2009.html>.

⁸ See Evilasio Salvador, *Fundo público e seguridade social no Brasil* (Public funds and social security in Brazil) (São Paulo: Cortez, 2010).

⁹ CDES, *Indicadores de equidade do sistema tributário nacional* (Indicators of equity in the national tax system) (Brasília: Presidency of the Republic, 2009), p. 37.

¹⁰ Pedro Delarue, interview by author, 23 November 2011. Delarue is labor inspector of the Secretariat to the Brazilian Revenue Service (*Secretaria da Receita Federal do Brasil* - SRF), the agency responsible for collecting and enforcing taxes in Brazil. He is currently the President of the National Union of Tax Auditors of Brazil's Revenue Service (*Sindifisco Nacional*).

follows the stabilization policies informed by the Washington Consensus, with a clear abandonment of the principles of selectivity and progressiveness, against the 1988 Constitution. The Brazilian tax system lost the original virtues that were structured around a development-oriented axis, and increased the distortions of a strictly and purely fiscalist bent.”¹¹

Initiatives to make the Brazilian tax system fairer based on constitutional guidelines have been rare. At the beginning of the first Lula government, the explanatory statement to Tax Reform draft law PEC 41 proposed in 2003 had among its reform goals “to promote social justice, exempting people with lower incomes and making the system more progressive” (p. 13).¹² However, as noted by André Paiva, that reform effort, which focused on progressivity in income and property tax, including regulation of the tax on large fortunes, met with strong resistance in Parliament and among the Brazilian elites.¹³

According to journalist Thaís Pires, these contradictions also do not receive the attention they deserve in the Brazilian press.¹⁴ Mainstream media deals sporadically with tax injustices but generally limits itself to publicizing events and lobbying efforts of governors and experts. Key media outlets seldom give equal exposure to the opinion of Brazilian citizens and rights organizations. As a result, the constitution’s vision of a tax system based on the principles of fairness, progressivity, and the ability to pay – a system that promotes redistribution and social justice – has been largely forgotten.

III - The 2008 Draft Tax Reform and its Effect on the Funding of Social Policies

During the second presidency of President Luiz Inácio Lula da Silva, the Brazilian government sent a new tax reform proposal to Congress. The proposed Constitutional Amendment (PEC) 233/2008 held serious consequences for the funding of social policies in Brazil.¹⁵ If passed, the reform would have ended the earmarking of certain funding sources for social security policies (pension, health, and social care); education; and labor – without making the tax system fairer through more taxation on income and assets.

In Brazil the budget law consists of three budgets: tax, social security, and investment. Specific revenues are earmarked for the social security budget that finances welfare and social services, health, and unemployment policies. Article 195 of the Brazilian Constitution specifies a series of social contributions that taxes on income, sales, profits, and company payrolls are meant to finance. The creation of this system in the 1988 Constitution was intended to resolve the perverse historical legacy in Brazil of neglecting social rights.¹⁶

The proposed tax reform was a continuation of the economic measures set out in the Growth Acceleration Program (*Programa de Aceleração do Crescimento - PAC*) launched in 2007. At that time the government announced it would “resume the discussion on tax reform with governors, mayors, business leaders, consumer representatives, and parliamentarians, with the aim of improving the tax system.”

¹¹ Marcelo Lettieri, interview by author, 23 April 2012. Lettieri occupied an important position in the bureaucracy of the Federal Revenue Service as Coordinator-General for Research, Forecast, and Analysis for the Brazilian Federal Revenue Service in the period between 31 July 2008 to 17 July 2009.

¹² PEC 41 ended up in the form of Constitutional Amendment 42, but was essentially limited to three items: extending the Provisional Contribution on Financial Transactions (*Contribuição Provisória sobre Movimentação Financeira - CPMF*), extending the Unbinding of Union Revenue (*Desvinculação de Recursos da União - DRU*) and a device determining progressivity in the Urban Real Estate Property Tax (*Imposto sobre Propriedade Territorial Urbana - IPTU*) which falls to municipalities.

¹³ André Paiva, interview by author, 26 April 2012. Paiva was an adviser to the Ministry of Finance from 2003 to 2007. In the 2008 to 2010 period, he was Deputy Secretary to the Ministry of Finance’s Department of Economic and Tax Reforms. He is currently Deputy Secretary to the Ministry of Finance of the Government of Rio Grande do Sul State.

¹⁴ Thaís Maria Pires, interview by author, 19 April 2012. Pires was a journalist in the Brazilian Chamber of Deputies in the period from October 2008 to May 2011. She is currently a press attaché for Sindifisco Nacional.

¹⁵ Despite awaiting a vote in the plenary of the Chamber of Deputies, PEC 233/2008 was practically abandoned by the President Rousseff Government. According to journalist Antônio Queiroz, “there is no agreement on the content of an ideal reform, starting with the replacement to PEC 233/2008. This text, which is awaiting a vote in the Plenary of the Chamber of Deputies, includes several controversial points and great resistance in the federal aspect, such as the issue of ICMS (value-added tax on sales and services) collection, whether at source or destination, the federalization of tax collection, and strongly affects the social security budget.” This journalist’s expectation is that “President Dilma will therefore have to revise this model in debate in the Chamber, sending a new proposal that does not endanger social security, in addition to taxing assets and income more and consumption less.” Antônio Queiroz, “Com maioria, mas sem reformas,” *Le Monde diplomatique, Brasil*, 2 May 2011, available at: <http://www.diplomatique.org.br/artigo.php?id=925&PHPSESSID=099cbc670a7e8a6c998a4f532aaf76c9>.

¹⁶ See in this regard Evilasio Salvador, *Fundo público e seguridade social no Brasil* (Public funds and social security in Brazil) (São Paulo: Cortez, 2010).

Noticeably, these plans did not include similar discussions with bodies representing civil society, grassroots organizations, social movements, or labor unions.

The formulation of the proposed tax reform, which took place over 12 months prior to its referral to the Brazilian Parliament, included an active agenda of meetings with representatives of the national business sectors, as well as meetings with governors and mayors. Dialogue with the social and union movements was limited to meetings held in the CDES. As a result, the proposed tax reform was largely a reflection of the interests of the business sector, federal government, state governors, and mayors. According to Ana Lucia Starling, this dynamic happened despite counselor José Antonio Moroni (also an INESC Board member) having defended the need for greater progressivity in the tax system.¹⁷ The main supporter of the proposed tax reform, economist Bernardo Appy, recognizes that dialogue was lacking: “If I went back in time today, I would open a broader dialogue with the social area.”¹⁸

According to Appy, the proposed tax reform had three aims: a) simplifying the tax system to reduce the burden on businesses and increase the competitiveness of Brazilian products, b) improving the system of indirect taxes in Brazil, ending the cumulative effect of certain taxes by creating a Federal Value Added Tax (VAT) and thus eliminating social earmarks, and c) ending the commerce levy that had created an internal “tax war” in Brazil amongst states eager to attract investment and income for their region.¹⁹ In this “tax war,” several state governments have given tax incentives to companies, a power that falls within their jurisdiction. PEC 233/2008 would have given the power to collect these taxes to the state where a product is destined to be sold. This would have created losses in the producing states, but would have ended the incentive to drive down corporate tax rates. INESC and the members of its coalition largely supported this measure.

Another representative of the Federal Government at the time and a senior member of the Brazilian Federal Revenue Service, economist Marcelo Lettieri, when asked about the strengths and weaknesses of the Executive’s proposal, stated: “The attempt to unify ICMS legislation [...] was, in my view, the only positive aspect of PEC 233. The main downside of the tax reform was the complete failure to restore the social function of taxation by attacking the concentration of income and wealth. The proposals were shielded against any moves that touched top-level income or the abundant breaks granted to income from capital.”²⁰

Guilherme Delgado states that the only tax principle considered in the proposed reform was that of neutrality, but in practice the effects of the reform would not have been neutral due to the threat to funding sources for social programs.²¹ The pursuit of neutrality also does not address the regressive effect of the Brazilian tax system; with its “neutrality” the proposed reform left intact the unjust distribution of income in the country.

Florianio Martins of the Brazilian Federal Revenue National Association of Tax Auditors (*Associação Nacional dos Auditores Fiscais da Receita Federal do Brasil*, or ANFIP) highlights the creativity of the provisions in the 1988 Constitution, which guarantees plurality as a means of financing social security.²² This is an important safeguard against economic cycles, with some tax sources offsetting others in times of crisis.

According to Delgado, these taxes are an integral part of the compulsory allocation of resources for health, welfare, and social security.²³ The proposed tax reform would have reduced the government’s ability to finance the social rights emphasized in the Constitution. For him, the constitution implies that

¹⁷ Starling, interview.

¹⁸ Bernardo Appy, interview by author, 29 February 2012. Appy held various positions in the Federal Government, including as Executive Secretary to the Ministry of Finance, and was appointed by President Lula as Special Secretary for Economic and Fiscal Reforms in 2008. He left the government in August 2009, after the failure to approve the Tax Reform in the Brazilian Parliament.

¹⁹ Appy, interview. Tax on circulation of goods and services (*Imposto sobre Operações relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação - ICMS*).

²⁰ Lettieri, interview.

²¹ Delgado, interview.

²² Florianio Martins, interview by author, 29 February 2012. Martins is a retired Brazilian Federal Revenue Service Tax Auditor. He was president of the ANFIP Foundation and ANFIP vice-president for social security in 2008 and 2009. He is currently vice-president of ANFIP.

²³ Delgado, interview.

programs pursuing the realization of these rights should never be subject to cuts. For Deglado, the Constitution requires that every time the demand for these social rights surpasses the annual budget, the treasury must supplement those resources. Social demand should determine the size of the budget; for Martins, this is a “golden rule” for extending social rights.

One consequence of tax reform was to bring the logic established in 1988 to an end and effectively impose a ceiling on funding for social rights, which in the future would have to compete for resources with other functions in the budget. As stated in INESC technical note 140, this shift meant that social policies in health, social services, and welfare would have to compete for resources with other governmental priorities and actors, in addition to facing the usual pressure from businesspeople for tax relief and the use of budget funds for business-friendly investment.²⁴

IV – INESC’s strategy for blocking the tax reform

INESC played a central role in coordinating and mobilizing civil society against PEC 233/2008. INESC built a broad coalition of organizations representing civil society in Brazil, with grassroots organizations, social movements, labor unions, religious organizations, and research groups linked to universities to oppose reform. Under INESC’s leadership, the “movement to defend social rights under threat by tax reform” was set up with a gathering of over 100 civil society organizations that worked with the Brazilian Parliament and carried out advocacy with the Executive from May 2008 to October 2010.

According to José Antônio Moroni, INESC has traditionally monitored the public budget on the expenditure side.²⁵ But since the organization started working on its “budget and rights” approach in 2007, it has argued that public revenues should be collected in a progressive way, putting the onus on the wealthiest to contribute more. For the INESC Management Board, according to Moroni:

“Tax reform touches on two fundamental pillars of the capitalist economy: economic power and political power. The tax system is a central element of Brazil’s social inequality. As a rights advocacy organization, INESC sees confronting tax injustice as central to reducing social inequality in Brazil.”²⁶

INESC first convened a public meeting to address the issue in March 2008 through the existing Brazilian civil society networks, particularly those coordinated by the Brazil Budget Forum (*Fórum Brasil de Orçamento*). At that time, only a few organizations showed up, such as ANFIP, the Inter-Union Department of Statistics and Socioeconomic Studies (*Departamento Intersindical de Estatística e Estudos Socioeconômicos* – DIEESE), and the Feminist Studies and Advisory Center (*Centro Feminista de Estudos e Assessoria* – CFEMEA), among others.²⁷ In parallel, ANFIP, which traditionally monitors the social security budget, had been holding discussions with its members and highlighting the impact of tax reform on welfare, health, and social care policies. There was also a group led by the Brazilian Center for Health Studies (*Centro Brasileiro de Estudos da Saúde* – CEBES), which met in the Chamber of Deputies in April 2008 to discuss the implications of the tax reform for the health sector. Lastly, several entities in the Catholic Church associated with the Economic Justice Program of the National Conference of Bishops of Brazil (*Programa Justiça Econômica da Conferência Nacional dos Bispos do Brasil* – CNBB), had been debating social rights and were concerned about the impact of the tax reform.

The civil society coalition spearheaded by INESC was ultimately an alliance of these four. When the groups first gathered together in June 2008, they named themselves the Movement to Defend Social Rights under Threat by Tax Reform (MDSR).

²⁴ INESC, “Nota Técnica n° 140: Reforma tributária desmonta o financiamento das políticas sociais (Technical note no. 140: Tax reform dismantles financing for social policies),” INESC, April 2008, available at: <http://www.inesc.org.br/biblioteca/publicacoes/notas-tecnicas/nts-antiores/nts-2008/NT.%20140%20-%20Reforma%20Tributaria%20Desmonta%20o%20Financiamento%20das%20Políticas%20Sociais.pdf>. This INESC study analyzes PEC 233/2008 and was instrumental in clarifying the proposed tax reform to Brazilian civil society organizations and to conduct advocacy in Congress via meetings and hearings with Brazilian deputies.

²⁵ José Antônio Moroni, interview by author, 29 February 2012. Moroni is a member of the INESC Management Board, holds a university degree in Philosophy and a postgraduate degree in History of Brazil, Special Education Fundamentals, and Methods and Techniques for developing Social Projects.

²⁶ Moroni, interview.

²⁷ A significant advisory entity to the Brazilian labor movement.

The Movement was led by executive coordination consisting of five entities: INESC, ANFIP, CFESS (Federal Council of Social Service – *Conselho Federal de Serviço Social*), the CNBB Economic Justice Program (Pastoral Associates/CNBB, *Grito dos Excluídos*/the Continental Network Jubilee South/Brazil, the Brazilian Commission for Justice and Peace – *Comissão Brasileira de Justiça e Paz*-CBJP/CNBB), and Public Debt Audit (*Auditoria Cidadã da Dívida*).

INESC and its partners in the MDSR adopted seven strategies to influence the Proposed Constitutional Amendment for Tax Reform:

- a) Producing skilled technical and policy studies that reported on the implications of the proposed tax reform on social policies, particularly health, social welfare, social security, unemployment insurance, and education.
- b) Calling attention and mobilizing social movements, trade unions, religious groups, and other civil society organizations to raise awareness of the negative impact of tax reform on social policy and human rights, and of the proposed reforms' failure to address the unfairness of the current tax system.
- c) Conducting advocacy in Congress via hearings and meetings with key Brazilian deputies.
- d) Advocacy in the executive branch via meetings with ministers and government officials.
- e) Advocacy in the judicial system through meetings with Federal prosecutors.
- f) Participating in exhibitions, lectures, seminars, and workshops in various regions of Brazil at the invitation of civil society and members of Parliament.
- g) Promoting public awareness through print and broadcast media.²⁸

INESC's advocacy strategy has two main components: it seeks to build alliances with various social movements in order to influence policy makers, especially with regard to budget management, and it analyzes and monitors the resources allocated to social policies as a way of providing substance and evidence to those lobby efforts.²⁹ All of the organizations in the coalition brought significant capacity to influence the tax reform, but INESC was in a unique position to coordinate the coalition because of its expertise in monitoring the Brazilian public budget and its past experience in working with the Legislature on financial matters. Moreover, INESC has no religious, corporate, or partisan interests. Thus, INESC met all the technical and political requirements for leadership in addition to having the administrative capacity.

Such a broad coalition obviously incorporated significantly different agendas. However, two principles unified the movement's members. The first was that the Brazilian tax system should be made fairer by taxing income and assets. The second was the defense of the 1988 Constitution's achievements, which had secured exclusive sources for financing social policies. These principles were consolidated in the manifesto submitted to the President of the Chamber of Deputies, as will be discussed later.

INESC's theory of change aims to alter the Brazilian budget process and policies in ways that promote human rights, the reduction of social inequalities, and the strengthening of democratic processes. The Institute recognizes that the desired changes are procedural, slow, and depend on a combination of social, cultural, and political factors and forces. That is why training social organizations and expanding the understanding of the role of the public budget as an expression of a "social pact" in relation to state priorities is an essential dimension of the process of change. With specific regard to the tax system, INESC's key aim is to amend the infra-constitutional legislation that regulates the national tax system, contributing to greater tax justice and securing tax sources exclusively for social policies.

The central problem pinpointed by the institute is the unjust financing of Brazil's budget, which is funded through disproportionate taxation of the poor. Figure 1 below presents a diagram that summarizes the INESC theory of change as it applies to the tax system. INESC planned interventions on four fronts:

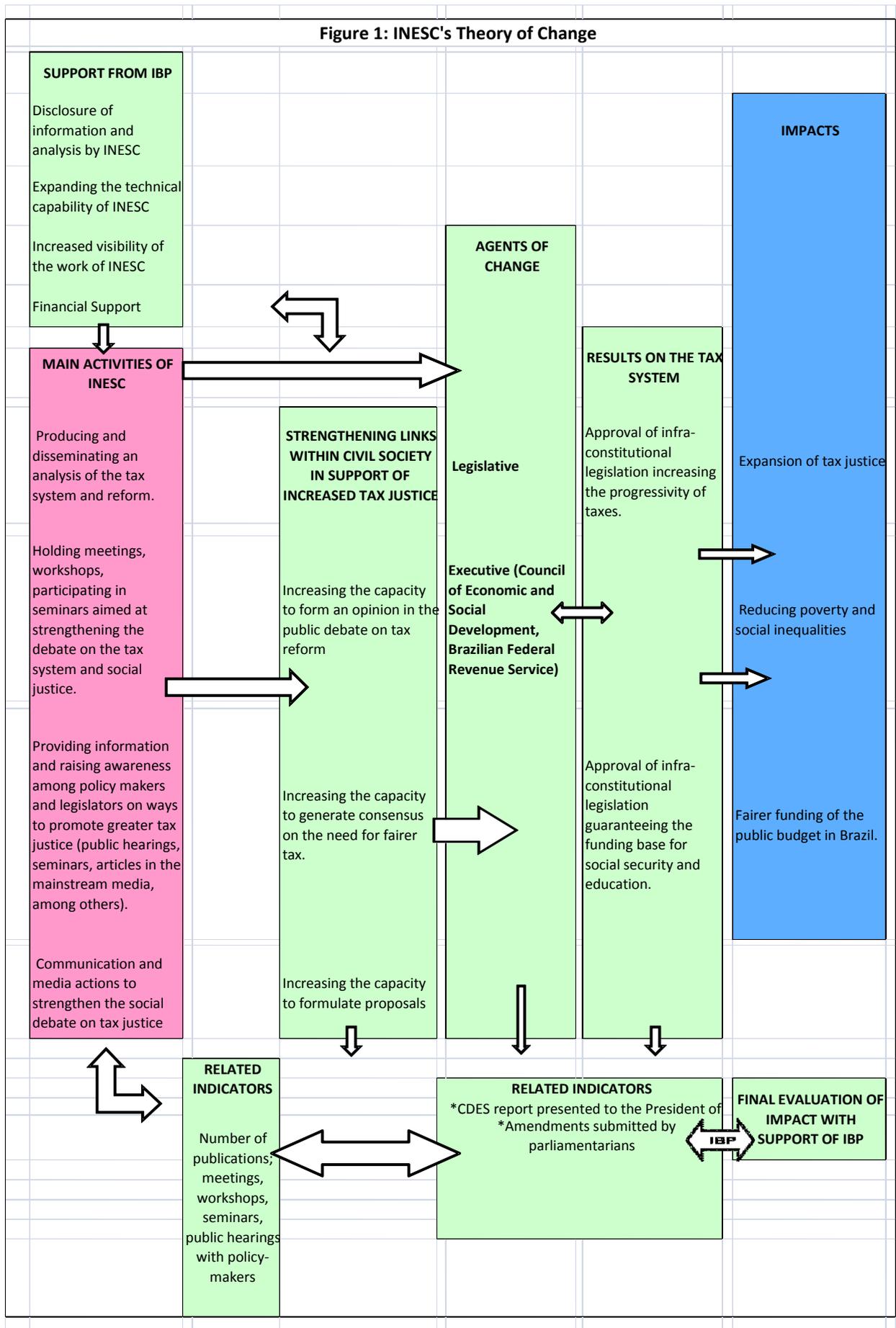
²⁸ A Google search using the Portuguese terms for "tax reform" and "INESC" brings up about 15,900 results.

²⁹ See in this regard INESC's publication which had the support of the IBP: INESC, "Orçamento e Direitos (Budget and Rights)," INESC, October 2009, available at: <http://www.inesc.org.br/biblioteca/textos/cartilhas-e-manuais-1/orcamento-e-direitos-construindo-um-metodo-de-analise-do-orcamento-a-luz-dos-direitos-humanos>.

- 1) Producing information and analysis on the proposed tax reform with an emphasis on the risk that it would weaken financing for social security, basic education, and employment policy.
- 2) Strengthening links with other civil society organizations to formulate consensus positions and joint intervention strategies to influence the tax proposal and the subsequent constitutional legislation.
- 3) Working with the National Congress, informing and raising awareness among parliamentarians about the importance of influencing and amending legislation in order to ensure the financing basis of social policies and to build a fairer tax system.
- 4) Participating in the activities promoted by the CDES under the Observatory of Equity, involving the Observatory's technical team, responsible for developing and monitoring a set of indicators for the tax system and for drawing up a report to be sent to the President of the Republic with suggestions focusing on building a fairer and more equitable tax structure.³⁰

³⁰ Moroni, interview. The data were supplemented by documents on the Theory of Change provided by the Institution.

Figure 1: INESC's Theory of Change



V - The Impact of the Campaign in Defense of Social Rights under Threat by Tax Reform

Even before the government formalized its proposal for tax reform, INESC had publicly expressed its position on reform to the tax system, including through an opinion piece published in the newspaper *Folha de São Paulo* entitled “For a fair tax reform.”³¹ The authors argued that to make the tax system fairer, it would be necessary to take action on tax reform for the assets and income of the richest 10 percent, who own 75 percent of the wealth in Brazil.

Working with the legislature

The first challenge for INESC and the other organizations opposed to the tax reform proposal was to open channels of dialogue with the government and Parliament in order to express their concerns and present an alternate path for tax reform that would preserve the funding for social policies and make the tax system fairer. INESC’s high-quality technical studies allowed them to engage with the government in ways beyond mere political pressure. In January 2008, INESC published its Technical Note 135, “End of the CPMF makes room for more fundamental changes in the tax system.”³² The note argued that a rejection of the proposed tax reform provided an opportunity for an alternative tax reform that could resolve the perverse structure of state funding in Brazil.

INESC also wrote a letter signed by 71 civil society organizations and addressed to President of the Brazilian Parliament, Arlindo Chinaglia, asking for the immediate creation of a forum representing employees and civil society organizations with the aim of promoting participatory discussion on the tax reform project.³³ The President’s office never replied to the letter.

Other lawmakers, however, were more sensitive to the demands of civil society, and the matter was discussed in a public hearing that lasted the entire day in the Social Security and Family Committee of the Chamber of Deputies. The initiative was led by Brazilian Democratic Movement Party (PMDB) deputies Saraiva Felipe and Rita Camata, and the hearing was attended by various civil society movements and organizations. A surprising number of other deputies attended, as well as representatives of INESC, ANFIP, the Economic Justice Program/CBJP of ANPPREV and CEBES. Perhaps most importantly, Bernardo Apy, one of the architects of the proposed reform from the Ministry of Finance, also attended and listened to the testimonies of civil society representatives. One of the media organizations attending the event, Rádio Câmara, highlighted the statement by the INESC representative that the tax reform put “social security and education and employment in a fight over resources with the governors and mayors – because the tax base is the same, shared among states and municipalities – and is also subject to the pressures on the fiscal budget.”³⁴

A framework that decisively influenced the debate on tax reform was INESC’s publication of Technical Note 140 in April 2008: “Tax Reform dismantles funding for social policies.”³⁵ This study later became a key reference for all members of the MDSR. For the first time, a civil society body documented – in technical terms – the consequences of PEC 233/2008 for the funding of social rights. The document also

³¹ João Pedro Stedile, Demétrio Valentini, José Antônio Moroni, and Emir Sader, “Por uma reforma tributária justa,” *Folha de S. Paulo*, 10 January 2008, available at: <http://www1.folha.uol.com.br/fsp/opiniao/fz1001200809.htm>.

³² INESC, “Nota Técnica n° 135: Fim da CPMF abre espaço para alterações mais profundas no sistema tributário (Technical Note no. 140: End of the CPMF makes room for more fundamental changes in the tax system),” INESC, January 2008, available at: <http://www.inesc.org.br/biblioteca/publicacoes/notas-tecnicas/nts-antecedentes/nts-2008/NT%20135-%20Análise%20das%20Medidas%20para%20Compensar%20o%20Fim%20da%20CPMF.pdf>. The CPMF is the Provisional Contribution on Financial Transactions.

³³ Articulação em Políticas Públicas no Estado da Bahia (APP – Bahia), “Sociedade pede instalação de fórum da reforma tributária,” APP – Bahia, 9 May 2008, available at: <http://www.politicaspUBLICASbahia.org.br/spip.php?article118>.

³⁴ “Reforma Tributária: financiamento da seguridade social representará 38,8% do orçamento fiscal,” Rádio Câmara, 14 April 2008, audio available at: [http://www2.camara.gov.br/radio/materias/ULTIMAS-NOTICIAS/350936--REFORMA-TRIBUTARIA-FINANCIAMENTO-DA-SEGURIDADE-SOCIAL-REPRESENTARA-38,8-DO-ORCAMENTO-FISCAL-\(0241\).html](http://www2.camara.gov.br/radio/materias/ULTIMAS-NOTICIAS/350936--REFORMA-TRIBUTARIA-FINANCIAMENTO-DA-SEGURIDADE-SOCIAL-REPRESENTARA-38,8-DO-ORCAMENTO-FISCAL-(0241).html).

³⁵ INESC, “Nota Técnica n° 140: Reforma tributária desmonta o financiamento das políticas públicas (Technical Note no. 140: Tax Reform dismantles funding for social policies),” INESC, April 2008, available at: <http://www.inesc.org.br/biblioteca/publicacoes/notas-tecnicas/nts-antecedentes/nts-2008/NT.%20140%20-%20Reforma%20Tributaria%20Desmonta%20o%20Financiamento%20das%20Políticas%20Sociais.pdf>.

took a political position in defense of a fair tax system that leaned more on income and assets. The study would ultimately have a significant influence on Parliament and on the Observatory of Equity technical team at CDES.

Deputy Darciso Perondi believed that the study produced by INESC opened a new perspective in the discussion on tax reform in the Chamber of Deputies, highlighting the need to preserve funding sources for social policies.³⁶ Ana Lúcia Starling (CDES) stresses that INESC was able to clearly decode a complex subject in the tax system.³⁷ For Marcelo Lettieri, the main achievement of the Movement's studies "was to denounce a clear attempt to break down the Social Security System and the funding for social policies."³⁸

The INESC technical note also served as the foundation for the manifesto drawn up by the MDSR. The Manifesto entitled, "In defense of the basic social rights threatened by the tax reform" was initially signed by 63 organizations representing civil society, and soon obtained the names of more than one hundred, including grassroots organizations, social movements, labor unions, and religious organizations. This manifesto was instrumental to their advocacy efforts with the Brazilian Parliament.

The manifesto, like the Technical Note that supported it, highlighted the threats of the proposed tax reform to the planning and funding of social rights in the 1988 Constitution, particularly on social security, and called for serious reflection on the matter from society, Congress, and the Executive. The document asked that the proposal not be passed or even be submitted to a vote without the necessary clarifications and corrections.

Dozens of meetings were also held with party leaders in the Chamber of Deputies, and 3 April 2009 turned out to be a key date for their advocacy in the Brazilian Parliament. On this day, a group of organizations with ties to the MDSR had a hearing with Federal Deputy Michel Temer, then President of the Chamber of Deputies, in addition to meetings with various party leaders.³⁹ At the meeting, the INESC representative presented the Manifesto to the President of the Chamber on behalf of the MDSR.⁴⁰ Among other statements, Sonia Fleury of the Brazilian Center for Health Studies (CEBES) told Deputy Temer that the proposed reform went against the tide of history and against the constituent assembly. Guilherme Delgado (CNBB Economic Justice Program) added that the reform was not as neutral as the government claimed it was, because it would have a huge social impact and once again favor the interests of large corporations.



Representative of INESC delivers Movement's Manifesto to Deputy Michel Temer

³⁶ Deputy Darciso Perondi, interview by author, 2 December 2011. Deputy Perondi is in his 5th parliamentary term. He is currently Chairman of the Congressional Health Committee and Deputy Leader of the Brazilian Democracy Movement (PMDB) in the Chamber of Deputies.

³⁷ Starling, interview.

³⁸ Lettieri, interview.

³⁹ Michel Temer Mandato was federal deputy in the period from 16 March 1987 to 31 December 2010 (6 consecutive terms). He was president of the Chamber of Deputies from 1997 to 2001 (2 consecutive terms) and for a third time in the period from 2 February 2009 until 17 December 2010. He is currently Vice-President of the Federative Republic of Brazil (term 1 January 2011 to 31 December 2014).

⁴⁰ "Presidente da Câmara recebe Manifesto em Defesa dos Direitos Sociais Básicos sob Ameaça na Reforma Tributária," INESC, 4 March 2009, available at: <http://www.inesc.org.br/noticias/noticias-do-inesc/2009/marco/manifesto-em-defesa-dos-direitos-sociais-basicos-sob-ameaca-na-reforma-tributaria>.

Other organizations that joined the movement expressed their concerns. Women representatives of the World Women's March (*Marcha Mundial das Mulheres* – MMM), the Movement of Rural Women (*Movimento de Mulheres Camponesas*), and CFEMEA took the occasion to emphasize the security of their rights under the Constitution and the need for exclusivity in funding sources.

The President of the Chamber of Deputies, in turn, said he was impressed with the strength and representativeness of the movement and promised to raise the matter before the party leaders.⁴¹ Deputy Michel Temer was clear in stating that it was necessary to preserve the gains achieved in the 1988 Constitution. The deputy suggested to the civil society representatives that they continue to mobilize and make alternative suggestions. The President also promised that he would attempt to persuade the Special Committee dealing with the reform, as well as the party leaders, to allow more time for debate. “I will personally defend the slowness of this process in favor of the 200 million Brazilians represented here,” Temer said.⁴²



Eighteen deputies and 40 organizations attended the hearing with then President of the Chamber of Deputies Michel Temer.

Deputies Ivan Valente and Darciso Perondi considered the meeting with the President of the Chamber as the most important moment of the Movement's actions, because the project would have come to a vote had it not been for the organizations expressing themselves.⁴³ For Floriano Martins of ANFIP, the handing of the manifesto to Deputy Michel Temer was the high point of the advocacy work in the Chamber of Deputies.⁴⁴

One of the party leaders who received the group was Deputy Henrique Fontana, the government leader in the Chamber who was sympathetic to the movement's demands and pledged to help them to broaden the debate to ensure funding for social security.⁴⁵ The leader of the Workers' Party (*Partido dos Trabalhadores*, or PT), Cândido Vaccarezza, also committed himself to further discussions with the party bench as well as with the President and Rapporteur of the Special Committee dealing with the reform, deputies Antonio Palocci and Sandro Mabel, respectively.

Deputy Brizola Neto said that “as heir to his grandfather's struggle, who always defended the banner of education,” he would strive to see to it that basic social rights were preserved.⁴⁶ He pledged to encourage other leaders to meet with representatives of the movement to further the debate. “We cannot vote on a reform of such social importance without knowing the facts,” the deputy said. “It is necessary to postpone the vote to build a reform that guarantees social justice.”⁴⁷ Several other lawmakers shared these sentiments. Deputy Chico Lopes advocated the “inadmissibility of including resources specific to social

⁴¹ Alexandre Pôrto, “Entidades afirmam que reforma tributária acaba com direitos sociais,” *Agência Câmara de Notícias*, 4 March 2009, available at: <http://www2.camara.gov.br/agencia/noticias/131586.html>.

⁴² Luiz Bassegio and Luciane Udovic, “Brasil – ‘Reforma Tributária só com justiça social’” *Adital*, 5 March 2009, available at: <http://www.adital.com.br/site/noticia.asp?lang=PT&cod=37583>.

⁴³ Perondi, interview. Deputy Ivan Valente, interview by author, 23 April 2012. Deputy Valente was elected one of the four best deputies in Brazil at the last Congress in Focus (*Congresso em Foco*) Awards in December 2011. He is currently national chairman of the Socialism and Freedom Party (PSOL).

⁴⁴ Floriano Martins, interview.

⁴⁵ According to Bassegio and Udovic.

⁴⁶ He is now, in 2012, Minister of Employment.

⁴⁷ According to Bassegio and Udovic.

security in the General Federal Budget,” and announced “the referral to the President of the Chamber of a manifesto in defense of social rights threatened by the tax reform.” Deputy Roberto Britto warned “of the reduction in funding for social security, in the event of approval of Proposed Amendment to the Constitution No. 233 of 2008 on tax reform.” Deputy Arnaldo Faria de Sá asked that the Manifesto in Defense of Social Rights Threatened by the Tax Reform be recorded in the annals of the Chamber. He also warned that approximately 240 billion reais in tax revenue for social security would be at risk with the approval of the reform. Deputy Daniel Almeida also noted the “threatened disintegration of social security, health, and social care policies,” arguing that the proposed tax reform should be substituted for an alternative bill. Finally, Deputy Darcísio Perondi warned of the “disintegration of the social safety net in the event of the proposed tax reform being approved.”

Following the recommendations of the President of the Chamber, the organizations MDSR presented a series of amendments to the Proposed Tax Reform to preserve the funding for social security, basic education, and unemployment insurance policies.⁴⁸ This was in addition to more progressive guidelines for the tax system, like the amendment submitted by Deputy Luiza Erundina at the request of the Movement, which proposed that “in imposing taxes or setting their rates, bases and values, the Union, the States, the Federal District and municipalities shall, where compatible with the type of tax, comply with progressive taxation.” The deputy also presented an amendment to impose the tax on large fortunes.

A further public hearing was held in the Social Security and Family Committee in March 2009 to discuss the impacts of the tax reform on the financing of social policies. That meeting was attended by the movement’s member organizations (INESC, ANFIP, CNBB, CEBES, and ANPPREV) and representatives of government and Parliament. The surprise at this meeting was a statement by the executive secretary of the ministry of Health, Márcia Bassit Lameiro da Costa.⁴⁹ The secretary said in his presentation that if the tax reform was approved in the current form under discussion in the Chamber of Deputies, health social policy would lose R\$15 billion.⁵⁰ The Minister’s statement clearly demonstrated to the organizations in the movement that the government was not monolithic.

According to Marcelo Lettieri of the Federal Revenue Service, and a member of the directorate of the agency at the time of the debate, the ministry of Finance had intended to cut the red tape in the tax system through these reforms, but the effective cost and financial impacts on the funding for social policies had not been calculated.⁵¹ In Lettieri’s opinion, the proposal “followed the path of gross simplification of taxes on consumption, under a functional argument, claiming to be neutral in relation to the size of the burden, although the implications aggravated the regressive content.” After the hearing, several deputies spoke to the press, stating that the tax reform would undermine social security.⁵² It is also noteworthy that the Secretary of Brazil’s Federal Revenue Service (SRF), the main government agency that would ensure technical support to the proposed tax reform, underwent a change of leadership during the conduct of the Tax Reform process, and with the new leadership came a new perspective on the tax system. Although they never made their position public, the members of the new SRF team did not support the current proposal, according to Marcelo Lettieri.⁵³ The Federal Revenue Service team had a political position much closer to that of the organizations in the movement because some of the new members came from the National Union of Tax Auditors of the Revenue Service (Sindifisco Nacional), which has historically argued for social justice-based tax reform.

⁴⁸ “Emendas Reforma Tributária,” INESC, available at: <http://www.inesc.org.br/biblioteca/textos/emendas-reforma-tributaria>.

⁴⁹ In Brazil the position of executive secretary in ministries is equivalent to deputy minister. “Seguridade avalia impacto da reforma tributária no setor,” Câmara dos Deputados 31 March 2009, <http://www.camara.gov.br/internet/jornalcamara/default.asp?selecao=materia&codMat=46261>.

⁵⁰ Marcia Bassit, “Reforma tributária e seguridade social,” INESC, 2 April 2009, available at: <http://www.inesc.org.br/biblioteca/textos/audiencia-publica-da-comissao-de-seguridade-reforma-tributaria/Marcia%20Bassit%20-%20Reforma%20tributaria%20e%20seguridade%20social.pdf/view>.

⁵¹ Lettieri, interview.

⁵² “Deputados dizem que reforma tributária vai prejudicar seguridade social,” *Agência Brasil*, 31 March 2009, available at: http://www.uai.com.br/UAI/html/sessao_3/2009/03/31/em_noticia_interna,id_sessao=3&id_noticia=104762/em_noticia_interna.shtml.

⁵³ Lettieri, interview.

In parallel INESC also worked with the CDES of the Observatory of Equity, Observatory’s technical team, responsible for developing and monitoring a set of indicators for the tax system. This collaboration produced the document “Equity indicators in the national tax system” and a letter of recommendation to the President of Republic entitled, “Observatory opinion No. 1 – the national tax system.”⁵⁴ The CDES document also said that it had the intention of influencing Congress, “considering also that the reform bill in Congress contributes to improving the system, since it simplifies the tax structure and aims to eliminate the huge distortions that encourage the tax war between the federal states, but does not address key aspects of the reform desired by Brazilian society.”

Table 1 below provides a comparison between the document prepared by the CDES and technical note 140 produced by INESC. It is evident from Table 1 that the study produced by INESC had a strong influence on the analysis and the recommendations made by the CDES. Importantly, the CDES is considered by INESC as an important agent of change within the executive branch of government (see Figure 1). Only two of CDES’s conclusions bear no relation to the INESC study. Both the CDES document and the INESC technical note point to the need to build a fairer tax system that includes more taxes on income and property while respecting citizens’ ability to pay. In addition, both documents indicate the need to guarantee the exclusive sources of financing for social policies.

Table 1: Comparison between the CDES Document and INESC’s technical note 140

CDES - Observatory Opinion No. 1	NT No. 140 of INESC
Analysis of the Tax System	Analysis of the Tax System
The injustice and regressive nature of the national tax system, in which the poorest layers of society pay proportionately more taxes.	The low-income population bears high indirect taxation because more than half the country’s tax revenue comes from taxes on consumption, something left unchanged by the tax reform proposal presented here (p.4).
The lack of visibility of the taxes paid by citizens to the federal, state and local treasury departments, constituting an obstacle to the exercise of citizenship.	The government should take this opportunity to regulate Article 150, § 5 of the Constitution “The law shall determine measures for consumers to be made aware of taxes levied on goods and services” by ensuring greater transparency in the collection of taxes (p. 9).
Insufficient resources for public investment in areas such as education, health, public safety, housing and sanitation, which are essential to the welfare of the community;	Linking resources therefore means ensuring that part of the revenue is mandatorily and exclusively used to fund the social area. The goal is to universalize social rights: education, welfare, health and employment (p.11).
The persistence of significant distortions in the incidence of corporate taxes, negatively influencing decisions on investment and job creation.	Bears no relation.
Inequity in the distribution of fiscal resources in the federation, expressed in the distance between the budgets per capita of the poorest municipalities in relation to the richest.	Bears no relation.
Recommendations	Proposals
A broad, continuous, and gradual process to recast the National Tax System in the direction of tax fairness and equity in the distribution of the tax burden, based on the principle of ability to pay.	The current Brazilian Constitution establishes some principles of tax justice to be observed by the legislature. Solidarity underpins all tax principles: equality, universality and ability to pay, essentiality; tax should preferably be direct, personal and progressive. Following the principle of ability to pay, we must

⁵⁴ CDES, “Indicadores de Equidade do Sistema Tributário Nacional: Relatório de Observação nº 1 (Equity Indicators in the National Tax System: Observation Report no. 1),” July 2009, available at: <http://www.cdes.gov.br/documento/1494604/indicadores-de-equidade-do-sistema-tributario-nacional-relatorio-de-observacao-n-1-062009-2009.html>.

<p>Prioritizing taxes on income and assets in order to allow gradual tax relief and reductions in the burden of indirect taxes, considered the major determinants of the regressivity of the system.</p> <p>Guaranteeing the link between uses and the diversity of sources in financing social security, as constitutionally determined.</p> <p>That the criteria for distributing tax resources allow every citizen, regardless of their location in the territory, to enjoy qualified access to public services, enough to meet the size and nature of demand.</p> <p>That efforts be made for the informal sector to be measured, known, and fought in its various forms.</p> <p>That the profile of public spending, not just collection, be the subject of discussion with society given that the tax issue is part of broader fiscal management.</p>	<p>graduate tax according to the wealth of each taxpayer so that the rich pay more and the poor less (pp.13-14).</p> <p>The cornerstone of the tax system must be income tax, as it is the most important direct tax, capable of ensuring the personal aspect and the level according to the taxpayer's economic capacity. Income tax will make it possible to reverse the regressivity of the Brazilian tax structure, as it is the most progressive tax. So that the tax financing is achieved using taxes on profits and dividends received by capitalist company shareholders, and the immediate regulation of the tax on large fortunes and taxation on equity (p.14-15).</p> <p>Social policies should have exclusive funding sources and must primarily be carried out with progressive taxes, in compliance with the constitutional principles of equality and ability to pay (p. 15).</p> <p>The State has a duty to intervene and rectify the social order, to remove the most profound and disruptive social injustices. Equality and justice are the basis for fair taxation which is a component of social justice (p.14).</p> <p>Bears no relation.</p> <p>Bears no relation.</p>
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Source: CDES - Observatory Opinion No. 1 - National Tax System (July 2009). INESC - Technical Note 140-Tax Reform Disassembles Funding for Social Policies (April 2008). Compiled by the author.

Media work

In tandem with the movement's actions in Parliament, media outreach was also important. One example is when the movement's work was highlighted in June 2008 by Brazil's main financial newspaper, *Valor Econômico*, which carried the story "Chamber halts tax reform." According to the newspaper, "representatives of the Parliamentary Health Front and the MDSR considered it insufficient to keep the Social Contribution on Net Income (CSLL) linked to social security, rather than eliminating it, as contemplated by Mabel's text, approved by the special committee." According to the report, the matter was proposed by the Deputy Sandro Mabel and by the Special Secretary for Economic and Fiscal Reforms of the ministry of Finance, Bernardo Appy, to Deputies Darcísio Perondi, chairman of the health Defense front, and Jô Moraes, representative of the Social Security Committee. The INESC advisor representing social movements also attended the meeting.⁵⁵

Engaging the executive

Representatives of the movement also met with many members of the Executive. At a hearing in March 2009 with the Minister of Institutional Relations, José Múcio, and a group of parliamentarians and representatives of the MDSR, the minister assured them that the concerns raised by the organizations would reach President Luiz Inácio Lula da Silva. At the hearing, Minister José Múcio stated that he was aware that the social protection sector was being hampered by the tax reform and assured everyone that

⁵⁵ "Câmara freia reforma tributária," *Valor Econômico*, 18 June 2009, p. A6, available at: <http://www2.senado.gov.br/bdsf/bitstream/id/158902/1/noticia.htm>.

there was no pressure from the federal government for it to be voted on soon. “Our priorities are the elements needed to combat the financial and economic crisis in Brazil,” José Múcio said.⁵⁶

Working with the federal prosecutor for citizen's rights

In an April 2009 meeting with federal prosecutor for citizens' rights Gilda Pereira de Carvalho of the Sub-Attorney General's Office, MDSR representatives requested her intervention, warning that PEC 233/2008 was likely to be found unconstitutional. The prosecutor then asked the movement to produce a technical study to support this position. In response, the movement produced the technical note, “The Financing of Social Rights Threatened by the Tax Reform.” The technical note listed five criteria for social funding, some of which already existed in the Brazilian constitution. To violate the constitution in any proposal would be devastating to social rights.

From the technical study produced by the movement, the prosecutor sent written notification to the ministers of Finance, Education, Health, Social Development and Hunger Alleviation, Social Welfare, the President of the Senate, and the President of the Chamber of Deputies.⁵⁷ The Prosecutor demanded explanations from the ministers and warned of the risk of unconstitutionality of PEC 233/2008. In response, the Ministry of Health agreed with the positions of the movement. The Ministry of Employment and the Ministry of Social Development and Hunger Alleviation also noted concerns about the effects of tax reform in the social area.⁵⁸ In his June 2009 letter to the prosecutor, Minister Patrus Ananias (Social Development and Hunger Alleviation) wrote, “We recognize the importance of tax reform in that it streamlines the tax system and increases the country's growth potential. Nevertheless, we are concerned about the possible negative effects that this PEC may cause in relation to the legal social rights enshrined in the 1988 Constitution.” Such statements illustrate the differences within the government, which were well exploited by the movement. Within the executive branch, as already reported, were different positions among the bodies concerned with social security, such as the Ministries of Health and Social Development, and the Federal Revenue Service. In Parliament, the movement's actions not only strengthened the position of the parties opposed to the proposed tax reform, but also created divisions within the government's political base, especially in two political parties: PT and PMDB.

VI – Resistance to Reforms

The debate on tax reform in Brazil faced resistance from many sides because the issue touched on two key aspects of the distribution of resources, namely: a) modifying the tax burden that each citizen pays, and b) changing the federative pact that established specific powers of taxation for all members of the Federation (Union, Federal District, states, and municipalities). In the former case, this meant building a new tax structure with most of the tax burden drawn from property and income. The Brazilian elite lives off income from interest and profits, and so they put forth enormous resistance against that structure. The federal structure of Brazil is also crucial in this matter. The main tax on consumption is the ICMS, which is a state tax, i.e. one that only the state governments and the federal district are allowed to levy (pursuant to art. 155, II, Constitution of 1988). This tax accounts for 21 percent of Brazilian tax revenue, equivalent to seven percent of GDP.⁵⁹ This situation means that any tax reform in Brazil requires the support of governors. As Bernardo Appy stressed, PEC 233/2008 received as much opposition from governors as it did from social movements, considering that “the governors of the producer states feared losing tax revenue and demanded more tax incentives from central government.”⁶⁰ It is also worth noting that in 2009, the states of São Paulo, Minas Gerais, and Rio Grande do Sul were ruled by governors of the PSDB, the main opposition party to then President Luiz Inácio Lula da Silva. These states alone account for half of Brazil's GDP.

⁵⁶ “Ministro José Múcio vai levar a Lula preocupação de parlamentares e entidades ligadas à Rede de Proteção Social com a Reforma Tributária,” available at: <http://darcisioperondi.com.br/ministro-jose-mucio-vai-levar-a-lula-preocupacao-de-parlamentares-e-entidades-ligadas-a-rede-de-protecao-social-com-a-reforma-tributaria/>.

⁵⁷ http://www.direitosociais.org.br/arquivos/2009/274_oficio_725-2009.pdf

⁵⁸ Responses to the Public Prosecution Service are available at:

http://www.direitosociais.org.br/arquivos/2009/293_e_ministros_sobre_pec_rt.pdf.

⁵⁹ “Carga Tributária no Brasil 2010: Análise por Tributos e Bases de Incidência,” Ministério da Fazenda, September 2010, available at: <http://www.receita.fazenda.gov.br/Publico/estudoTributarios/estatisticas/CTB2010.pdf>.

⁶⁰ Appy, interview.

One final circumstance that influenced the political decision to withdraw the proposed reform was the economic crisis that started in the United States in 2008 and spread throughout the global economy. The crisis reached Brazil in 2009 and with it GDP contracted by 0.2 percent, the first decline in Brazilian economic activity since 1992.⁶¹ The result directly impacted the public budget, with a R\$7 billion drop in tax receipts in real terms.⁶² In an economic environment of uncertainty about the government's revenues, ahead of presidential elections, and given the resistance of governors and civil society, it was perhaps inevitable that the tax reform be pulled from the legislative agenda.

VII - Impact of the Campaign

The numerous interviews cited in Section V above illustrate that the movement's actions in Parliament and elsewhere directly contributed to the failure of the proposal in the Chamber of Deputies. INESC's role in the MDSR is also specifically recognized by various civil society stakeholders, by the government, and by the Brazilian Parliament. Deputy Darciso Perondi emphasizes that the movement led by INESC was instrumental in influencing Parliament and preventing tax reform from affecting social rights.⁶³ This opinion is shared by Deputy Ivan Valente, for whom "INESC's participation was important in the discussion of tax reform, having contributed to stopping PEC 233/2008."⁶⁴

For Bernardo Appy, the executive branch representative responsible for conducting tax reform, civil society organizations played an important role in the discussions of tax reform and "INESC's contribution was crucial within the social area."⁶⁵

For *Grito dos Excluídos* ("Cry of the Excluded"), one of INESC's partner organizations in the MDSR, the institution was instrumental in providing guidance and clarifying the strands of the tax system, demystifying issues that are complex for social movements, as Luciana Udovic recalls.⁶⁶ For university professor Sonia Fleury (former president of CEBES), INESC's strategies of focusing on the public budget and pursuing dialogue with Congress were critical to the success of the MDSR.⁶⁷ ANFIP's Floriano Martins also recognizes that INESC was instrumental in advising, coordinating, and producing studies for the movement.⁶⁸

Journalist Antônio Martins emphasizes that "INESC is one of the only NGOs in Brazil that is bringing up the debate on income redistribution. I give it a lot of credit for monitoring the budget, its work discussing the nature of taxes, and its efforts to seek alternatives."⁶⁹

VIII – Lessons Learned

The main aim of the MDSR was to prevent the adoption of a proposed tax reform presented by the Brazilian government that would have affected the funding for social policies. In this regard, the

⁶¹ Adriana Chiarini and Jacqueline Farid, "PIB do Brasil fecha 2009 com retração de 0,2%, a primeira queda anual em 17 anos," *Agência Estado*, 11 March 2010, available at <http://economia.estadao.com.br/noticias/economia,pib-do-brasil-fecha-2009-com-retracao-de-02-a-primeira-queda-anual-em-17-anos,8580,0.htm>.

⁶² "Arquivos - Arrecadação 2009," *Receita Federal do Brasil*, available at: <http://www.receita.fazenda.gov.br/Historico/Arrecadacao/ResultadoArrec/2009/arqarre.htm>

⁶³ Perondi, interview.

⁶⁴ Deputy Ivan Valente, interview by author, 23 April 2012. Deputy Valente was elected one of the four best deputies in Brazil at the last Congress in Focus (*Congresso em Foco*) Awards in December 2011. He is currently national chairman of the Socialism and Freedom Party (PSOL).

⁶⁵ Appy, interview.

⁶⁶ Luciana Udovic, interview by author, 3 December 2012. Udovic is national secretary of Grito dos Excluídos, and responsible for the Economic Justice program, linked to the Catholic Church.

⁶⁷ Sonia Fleury, interview by author, 2 April 2012. Fleury has a PhD in Political Science, a Master's degree in sociology, and is a psychologist. She was a member of the Social and Economical Development Council of the Presidency in the Government of President Lula, from January 2003 to December 2006, President of the Brazilian Center for Health Studies (CEBES), 2006-2009 administration, and head professor at the Fundação Getúlio Vargas (FGV-RJ).

⁶⁸ Floriano Martins, interview.

⁶⁹ Antônio Martins, interview by author, 3 December 2012. Antônio Martins is a journalist and member of the Associação Outras Palavras ("Other Words Association") (reference point for culture, journalism and free media), and coordinator www.outraspalavras.net. He was editor of the digital version of *Le Monde Diplomatique* in Brazil.

movement was successful because the proposal was never submitted for a vote in the Brazilian Parliament. This achievement was the movement's greatest.

Before MDSR's campaign, the issue of social rights was not associated with the tax debate. As such, the movement's other notable success, through activities that have been described above, was to reframe the tax debate as a social issue, rather than as a purely technical one, and force the Chamber of Deputies, several ministers, and the Public Prosecution Service to recognize the harmful impacts of the tax reform.

The movement's unity was one of its greatest strengths, as evidenced by the number of organizations present at the hearing with the President of the Chamber. This combined pressure helped to shift the course of the proposal, a point that has not been lost on civil society members who have since remarked on the case as a hallmark of the political efficacy of mobilization.

Another important legacy of the campaign are the lasting networks around taxation issues. The work undertaken allowed more than one hundred Brazilian organizations to learn about the seldom-discussed side of public budgets: taxes. That hundreds of organizations in Brazilian civil society make the connection between tax reform and social justice is an important achievement by INESC and its partners. The issue is no longer exclusive to government technicians and businesses, but a concern for society as a whole.

In spite of its achievements, the movement could have improved upon aspects of its strategy. For example, though the movement did garner some media attention, this work could have been better carried out. At issue here, however, are the limits of the Brazilian press, which has a recognized bias in favor of the elites that tends to exclude the critical positions of civil society organizations, according to journalist Antônio Martins.⁷⁰ Throughout the campaign, the most useful channels of communication were those possessed by the movement's members, or the broadcast media of the Parliament and Chamber of Deputies. In this regard, an important lesson is the need to hire a media adviser who can act as interlocutor between organizations and the mainstream media. The media cannot take any credit for blocking the tax reform because in many cases they clearly favored the government position or merely summarized events.

Lastly, there remains a great challenge for INESC and the organizations that acted together in the movement: to move from a role of resistance to one of building a more detailed proposal for a new Brazilian tax system. This new system must lead to social justice and consider proposals to overcome social inequalities. The skills, networks, and energy that the movement has left behind are crucial to the path forward in Brazil, and blocking an unjust tax reform proposal is a significant victory. But the movement faces an even greater challenge now: to persuade decision-makers to enact a pro-poor tax reform that will resolve the regressive and opaque nature of the country's existing tax system.

⁷⁰ Antônio Martins, interview.

List of interviewees

Parliament:

Deputy Darcísio Perondi

Deputy Ivan Valente

Federal Government:

Bernardo Appy

André Paiva

Ana Lúcia Starling

Marcelo Lettieri

Journalists:

Antônio Martins

Thaís Maria Pires

Members of the MSDR:

Luciane Udovic

Guilherme Delgado

Floriano Martins

Sonia Fleury

INESC:

José Antônio Moroni

Civil Society:

Eduardo Fagnani

Pedro Delaure