

# Land property taxes in metropolis of global south: actors, interests, and strategies in the case of São Paulo (2000-2016)

*Working Paper*

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## 1. Introduction

Inequality over wealth is a determining element in the reproduction of economic and social differences, reinforcing the idea of taxes on capital as a means of reducing inequalities in the long run (PIKETTY, 2014). However, inequalities are not only related to income and wealth, but also to access to basic services as non-monetary dimensions (ARRETCHE, 2018). These basic goods and services are determined by the State's tax revenue capacity, which gives relevance to the taxation policies on real estate property in order to think about changes in the situation of inequality both through direct taxation on real estate wealth and through the conditioning of municipal spending – given that the property tax is largely focused on local financing in different countries around the world (CARVALHO JR., 2017).

Studies on property taxation policies in underdeveloped countries (BRÄUTIGAM; FJELDSTAD; MOORE, 2008; CARVALHO JR., 2017) and in Brazil (AFONSO; LUKIC; ORAIR, 2017; CARVALHO JR., 2017; CHRISTENSEN; GARFIAS, 2019; DECESARE, 2004; GADENNE, 2017; GOBETTI, 2018; GOTTLIEB; HOLLENBACH, 2019; HOLLENBACH; SILVA, 2019) have expanded. They generally seek to discuss state building, state capacities and political mechanisms that impede economic development, understood as a consequence of the advance of the state's capacity to tax. For this, they seek to measure the effects of changes in the state's capacity to collect taxes in order to discuss tax collection potential and financial autonomy, economic development and political representation in the local executive electoral arena.

Looking at international practices, we see that Brazilian institutions differ in attributing to the municipal level the responsibility for carrying out the collection of taxes and its autonomy to legislate in this regard. This explains the diversity of designs, rate structure, collection levels, importance in the composition of revenues and, ultimately, the low incidence of property tax in various locations, in addition to its

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general regressiveness (CARVALHO JR., 2009, 2017). Based on this institutional design, the main disputes over the definition of fiscal policies on real estate property, its income, and its possible redistributive impacts are placed at the level of urban policy in each municipality.

However, although we have advanced in understanding the description of certain phenomena arising from the broader design of fiscal policies at the municipal level through national and international comparisons, little has been studied about the determinants of property fiscal policies at the local, intra-urban level, their mechanisms and ways of operating surrounded by specific institutions and contexts, leaving many questions open.

The main objective of the work<sup>2</sup> was to map and identify the main arenas, actors, interests and strategies involved in the political process of approving property tax reforms in the city of São Paulo. The main question to be answered is: how did governments of different ideologies pass progressive reforms to increase property tax?

The text is divided into six sections with this introduction. In the next section, I briefly discuss the methodological choices made. In the third section, the literature with which I dialogue and my theoretical point of view are presented. In the fourth, I analyze the main institutional elements of the trajectory of fiscal policy on property in São Paulo. In the fifth section, three cases of approval of reforms are discussed as a means of understanding the interaction between arenas, actors, interests and their strategies. Finally, I close with a brief conclusion.

## **2. Methodology**

The methodology used is characterized by mixed methods, which combines the use of quantitative and qualitative methodology. The use of quantitative methodology, of an inductive and inferential type, is based on financial, economic, policy and legislative output data, which allow us to identify regularities over time and between the cases of the different governments analyzed. Qualitative methodology, both deductive and interpretive, is used to study mid-range processes and structures through institutional and historical reconstitution and through the meanings given by actors to theirs's and other's actions.

The data presented were produced based on research in public collections, mostly digitized and actively available on the websites of the Municipal Finance Department

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<sup>2</sup> This article is based on research and some results of my master's dissertation (MINARELLI, 2019) and was written for the 2021 edition of RC21.

and the City Council. For the entire research, all laws and law proposals related to property taxes in the city of São Paulo between 1946-2016, tax collection between 1980-2016, and exemptions between 1995-2016 were analyzed. In addition, 14 interviews were conducted with government secretaries, bureaucrats, councilors, and a representative of the real estate market; analysis of official documents and all newspaper news related to the topic available in banks digitized by the two largest newspapers in circulation in the country and in the city between 1988-2016 were made. Here, only a summarized part of the results will be presented with a focus on three cases of different governments, two from the left and one from the right, between 2000-2016. The other case of right-wing government in the period will not be analyzed due to the lack of relevant reforms and the continuity represented by the focus government of the second case.

The definition of progressivity criteria for policy analysis was based on the work of Carvalho Jr. (CARVALHO JR., 2006), who considers as central elements of fiscal policy on property taxes the (i) definition of the rate structure, (ii) the updating of the calculation basis of property values and (iii) exemptions. These criteria guided the analysis of proposals and measures taken by actors and governments.

According to Carvalho Jr. (2006), the progressiveness of the property tax can be affected in the composition of the tax collection formulas, roughly, in two ways: by defining the rate to be charged for each unit and by the market value of the property used as a reference for taxation, contained in the tax base for tax collection. The interaction of these two dimensions in relation to exemptions is what produces different progressivity effects.

The rates impact when establishing differential criteria according to location, use, construction pattern (size, number of rooms, etc.) and property value, for example, so that those in better urban conditions and property values contribute proportionately more than those in a more disadvantaged situation.

The property's value has a progressive effect as it establishes the value of the property commodity and how much should be contributed by the income that is earned from it. Its function is to approximate the reference value of the real earnings of the owners. Depending on the criteria for establishing this value and the size of the gap to market prices, even with progressive differential rates, there can be general regressive effects, charging less from those who have more capital and income and more from those who have any less. Both elements act together and in an articulated way in the general effect of tax progressivity, but they are produced and have different implications.

Exemptions must be considered on a case-by-case basis to define their implications for the effects of fiscal policy. I will use Carvalho Jr.'s (2006) differentiation to consider the cases of exemptions (total or partial) based on progressivity criteria (property value)

and selectivity (area, location, construction pattern) as a progressive effect. In these cases, even though they are not differentiation criteria that affect the entire taxpayer base, they are criteria that establish taxation differentiation on the lower part of the taxpayer distribution, having a progressive effect on the general tax system - even if it is not a question of a progressive charge.

### **3. Theoretical Framework and Literature Debate**

The research is guided by a historical neo-institutionalist perspective from Political Science, which gives centrality to institutions in understanding the actors' preferences, in the unequal distribution of resources, opportunities and sanctions between them, operating as filters that frame actors and preferences, with long-lasting effects duration on their behaviors and on the political and policy outcomes (EVANS; RUESCHEMEYER; SKOCPOL, 1985; IMMERGUT, 1998; MAHONEY; THELEN, 2009). This perspective is broad and guided mainly by studies at the national level, concerned with dynamics and processes that are far from the urban dynamics.

I follow Marques (2021) in his understanding of the specificities of urban policies and in his vision of how electoral and party mechanisms and public policy production processes have interacted in the city of São Paulo over the last 40 years. According to the author, the city has gone through a pattern of change with incremental progressivism, which incorporates the dimensions of continuity and change, associated with alternations between governments and policies, but which has cumulative effects over time. I also follow Peres (2021), regarding the multilevel vision of the municipal budget, its characteristics of incremental and punctuated change, constrained by politics and higher-level institutions, with strong centrality and, at the same time, limitations of the local Executive.

On the one hand, debates on inequality and redistribution have recently advanced with the use of new sources of fiscal data on income tax and methodologies for stratification and comparison between countries (AFONSO; LUKIC; ORAIR, 2017; GOBETTI, 2018; GOBETTI; ORAIR, 2016; PIKETTY, 2014; SOUZA, 2018). However, very little has been said about the concentration of wealth and its specific types, such as real estate (CARVALHO JR., 2006, 2009, 2017; JIMÉNEZ, 2017). The focus is mainly on financial capital and at national and international levels. When approaching the local level, the gaze turns mainly to a government decentralization agenda, which seeks to understand, by comparing cities, which are the best measures, institutional formats, policies and programs capable of expanding the capacity and autonomy of self-financing of local governments by through property tax policies, which are under its responsibility or aimed at financing it in much of the world (CARVALHO JR., 2006; IPEA, 2011; JIMÉNEZ, 2017).

On the other hand, in the case of the fiscal debate, national and international studies have largely dealt with geographic constraints (CHRISTENSEN; GARFIAS, 2019), wars (TILLY, 1996), conflicts between elites (CHRISTENSEN; GARFIAS, 2019; GARFIAS, 2018; LIEBERMAN, 2003), cultural and colonial roots (BORGES, 2018; LIEBERMAN, 2003), the level of decentralization (OATES, 2001 apud CARVALHO JR, 2017; BRÄUTIGAM; FJELDSTAD; MOORE, 2008), of industrialization, the GDP per capita, (AFONSO; CASTRO, 2014; AFONSO; SOARES; CASTRO, 2013; BRÄUTIGAM; FJELDSTAD; MOORE, 2008; CASTRO et al., 2017), the size of cities, the amount of interfederative transfers (ARRETCHE; VAZQUEZ; FUSARO, 2007; CARVALHO JR., 2017; CASTRO et al., 2017), international financing (BRÄUTIGAM; FJELDSTAD; MOORE, 2008) impact tax collection levels, investment in the real estate registry, its maintenance and periodic updating, understood as the main proxies of capacity this such to charge. These studies show that larger cities, in more urban areas, more economically dynamic, less dependent on external transfers and financing and with professionalized bureaucracies, collect more relatively and absolutely.

They generally seek to discuss state building, state capacities and political mechanisms that impede economic development, understood implicitly or explicitly as a consequence of the advance of the state's capacity to tax. For this, they seek to measure the effects of changes in the state's capacity to collect taxes in order to discuss tax collection potential and financial autonomy, economic development and political representation in the executive electoral arena. This set of works concludes that tax revenue varies over time and space, between countries with similar socio-economic characteristics and that are dependent on political decisions, with the assumption that the capacity to tax and economic and social development are correlated, they are not equally available to all, but without clear meaning of the causal relationship and other determinants, one of the problems presented with the use of the concept of state capacities by Cingolani (2013).

Politically, studies in economics, public administration and urban studies usually justify results found through political will and tax effort arguments to point out that when capacities are present, results reach the expected and that when they are not, they consider that there is relative potential. improvement (AFONSO; CASTRO, 2014; AFONSO; SOARES; CASTRO, 2013; BORGES, 2018; CARVALHO JR., 2017; CASTRO et al., 2017; DECESARE, 2004). DeCesare (DECESARE, 2004) points out that the difficulties in approving fiscal reforms in Latin America are related to the lack of political will, distrust of public authorities, weak governance, and corruption. Some highlight the proximity of the electorate in smaller cities as a factor that would lead to capture by elites and lower tax revenue (AFONSO; CASTRO, 2014; MAHLMEISTER; KOMATSU; FILHO, 2018). Others point out the avoidant attitude or aiming to postpone the updating of venal values by

mayors and city councils (DOMINGOS, 2011) and the tendency to not maintain or update tax records (CARVALHO JR., 2006, 2009, 2017; CASTRO et al. , 2017; IPEA, 2011) as a way to anticipate wear and tear in the electoral arena. These authors emphasize the relationship between representatives, the electoral arena and reelection expectations, generically relating them to the idea of high political costs and poor performance at the polls. However, these aspects are not analyzed systematically and individually.

More recent research has dealt with the links between electoral incentives and their power to define the decisions of government officials to invest in the state's capacity to tax property in Brazilian municipalities. Charging is a difficult activity and is not available to everyone (BRÄUTIGAM; FJELDSTAD; MOORE, 2008; GOTTLIEB; HOLLENBACH, 2019; HOLLENBACH; SILVA, 2019). Political costs can impede the necessary investments (CHRISTENSEN; GARFIAS, 2019). In Latin American democracies, including Brazil, politicians in general exploit the vulnerability of citizens to secure their political support. Such practices include offering particularistic benefits in exchange for votes (HICKEN, 2011; NÚÑEZ, 2018; STOKES, 2005). Families without titles face eviction threats and challenges in accessing public services. These voters are particularly susceptible to contingent promises of protection or access from local politicians in exchange for electoral support (CHRISTENSEN; GARFIAS, 2019; GARFIAS, 2018; HOLLENBACH; SILVA, 2019), which is understood as clientelism or clientelist relationships.

Thus, even if governors were revenue maximizers (LEVI, 2008) and the interests of increasing revenue for first-term mayors exist, the prospect of losing a powerful political tool like this or possible electoral punishment can guide their decisions (CHRISTENSEN ; GARFIAS, 2019). However, limited-term mayors (with no possibility of re-election) are no longer likely to reform local property tax laws (which set tax rates) or revise the formulas that assign the scale value of properties. In fact, where there is more inequality and poverty – which would lead to clientelist relationships – the incentive given by impeding re-election would have more effect on mayors who would tend to invest more. And in low-capacity environments, voters are less likely to pass higher taxes than under higher-capacity (GOTTLIEB; HOLLENBACH, 2019).

The relevant actors for the determination of property tax policies indicated in the literature are real estate actors - builders, real estate companies and more valued property owners - without exactly having specific interests and strategies (AFONSO; CASTRO, 2014; AFONSO; SOARES; CASTRO, 2013; CARVALHO JR., 2006, 2009, 2014, 2017; CASTRO et al., 2017), the richest (economic and political elites) (CHRISTENSEN; GARFIAS, 2019; GOTTLIEB; HOLLENBACH, 2019, 2019; LIEBERMAN, 2003) , interested in limiting or discouraging investments in the state's capacity to tax, reform or impede reforms and evade the tax (BRÄUTIGAM; FJELDSTAD; MOORE, 2008; LIEBERMAN, 2003).

The political dispute to produce these public tax policies has been little discussed in the debate. Questions persist about how politically these policies are made viable, the approval of their reforms – always considered very unpopular and politically costly –, their management and implementation, the dynamics between state and non-state actors, their interests and strategies in the pursuit of their goals.

Some theories point to interpretations about the relationships between governments, rulers, parties, ideologies, elections, and voters. Pluralist authors suggest that democracy, broader suffrage, and competitive elections bring more chances for left-wing governments to come to power (DAHL, 1971). In a context like this and with high income inequalities, voters' preferences tend to be for redistributive programs - and governments (MELTZER; RICHARD, 1981) –, which, therefore, make rulers revenue maximizers and voters maximizers of benefits (LEVI, 2008). On the other hand, authors of partisan politics point out that left-wing governments tend to tax more (ESPING-ANDERSEN, 1991), to produce policies with greater redistributive effects and increase state capacities, but through regressive fiscal policies (HUBER; STEPHENS, 2012).

Looking at the spending side of urban policies, Marques (2021) suggests that these elements all somehow articulate in a political party mechanism and in the process of producing public policies. In a democratic and competitive electoral context, the alternation of power and the election of leftist governments, which produce more redistribution and increase in capacities, produce mechanisms for the permanence and reinforcement of certain policies. This happens through a mechanism linked to the median voter (MELTZER; RICHARD, 1981), which makes both parties, on the left or on the right, to converge in the production of redistributive policies, improving them, or at least seeking to transform them. without hurting the interests of the beneficiary electorate. The specific dynamics related to institutions also act producing permanencies, incremental changes, and accumulations over time. This work dialogues and seeks to contribute towards the advancement of empirical and theoretical reflections on these theories.

#### **4. Institutions and trajectories of the policy**

Brazilian municipalities have political, administrative, budgetary, and fiscal autonomy (PERES, 2021). Even though it has always been among the main budgets in the country, São Paulo's revenue structure and volumes have changed considerably. The city went through bad periods between the 1980s and early 2000s, with heavy losses in its own revenues and heavy reliance on transfers and credit operations. In addition, it faced negotiation processes with the federal government at least twice and the adjustment of its accounts to the new fiscal arrangement proposed by the 1988 Constitution and

implemented in the 1990s. It advocated decentralization, autonomy, responsibility, and increased capacity collection of municipalities. It demanded primary surpluses consistent with its own revenues and control of its accounts and debts (OLIVEIRA, 2012; PEREIRA, 2016; PERES, 2018). The federal government promoted a series of reforms and programs as a way to achieve these goals, such as the Fiscal Responsibility Law (LRF), the law that guaranteed the constitutionality of the progressiveness of the property tax, the imposition of new terms of budget management, tax and indebtedness through debt renegotiation contracts and tax modernization incentive programs.

Currently, we see that the city has much more financial autonomy, depending more and more on its own taxes, which have been growing consistently based on changes towards the expansion of its tax base, both in the number of instruments, sources and ways of collecting resources, as well as the set of existing taxes from the beginning (MINARELLI, 2020). Investments in qualified, autonomous bureaucracies, endowed with centrality in local political networks (MARQUES, 2021, 2018), and in fiscal modernization through specific financial resources not subject to dispute of annual budget sharing by supra-governmental programs (BNDES, IDB), it provided conditions for changes implemented by different governments to have a continuous, overlapping and cumulative effect over time, from a fiscal point of view.

From a political point of view, the city elected between 1988-2018 three governments of the left, three governments of the right and three of the center-right, with predominantly right-wing legislative representation (LIMONGI; MESQUITA, 2011; MARQUES; HOYLER, 2018; SILOTTO, 2017). The local Executive, despite disputes, negotiations, different strategies and concessions, is able to implement its political agenda in relation to the City Council (MARQUES, HOYLER; 2018) and did so in terms of property tax policy (MINARELLI, 2019). The analysis of the legislative output on property tax in the period shows that all governments implemented tax reforms in different directions, as discussed below.

Among the international and national scenario, São Paulo is an exception. It contradicts all predictions in the literature about the Executive in terms of its position on reforms and in relation to elections. It is among the small group of large cities that depend little on inter-federal transfers and external financing. With professionalized bureaucracy, it is the one that collects the most in the country, representing approximately one-quarter of national revenues on property taxes - but whose importance within its own revenues has been growing in recent years, leaving around 7% in 1988 and currently in around 20% since 2018 (MINARELLI, 2020)<sup>3</sup>.

Compared to New York, it collects relatively little in proportion to its GDP and total own revenues (BORGES, 2018). Like most of the 22 largest Brazilian cities, it applies tax

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<sup>3</sup> According to data from the National Treasury Secretariat (STN) and the Brazilian Institute of Geography and Statistics (IBGE), in absolute terms updated by the IPCV, in 2017, São Paulo earned almost 4 times more than the second that is Rio de Janeiro and 8 times more than Belo Horizonte, the third.



at progressive rates and began to regularly update its tax register since at least the 1990s (CARVALHO JR., 2014; MINARELLI, 2019). Unlike their national and international equivalents, their exemption levels (totals and discounts) are high (BORGES, 2018; CARVALHO JR., 2014; MINARELLI, 2019). Even though there is a concentration of real estate ownership in the city<sup>4</sup>, there is a relative distribution of residential properties (BONDUKI, 2011; PASTERNAK; BÓGUS, 2014). This means that a relevant part of the electorate residing in their own home is a potential beneficiary of total or partial exemptions.

Minarelli (2019) shows that exemptions are the main motivation for legislative production on property tax in the city between 1986-2016, practically monopolizing the proposals and approvals of the Legislative initiative and concentrating its contributions on amendments and substitutes. The Executive is also no less fruitful in the matter: even though it concentrates the initiative of the main elements defining the policy (rate structure, registration update, amnesties and debts) in more complex legislation, more than 80% of its agenda on property tax also passes through exemptions. They have existed since the 1970s, being introduced as a benefit to urban peripheries in the period of return to democracy and have, despite the variation in criteria and levels of exemption, great continuity over time. However, it has been little explored in the literature.

To deepen the knowledge about the trajectory of these policies from the case of São Paulo, evidence on the three main elements of tax policies on property taxation by Carvalho Jr. (2006) were analyzed: (i) definition of the rate structure, (ii) the updating of the calculation basis of property values and (iii) exemptions. Table 1 presents the main results of the analysis of legislation and public data on the policies produced and implemented in each government over time.

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<sup>4</sup> The author is carrying out data analysis to seek more precise answers in this regard through the analysis of the property registry database for the release of the city's property tax.

**Table 1. Trajectory of the main elements of property tax policy in São Paulo (1989-2020)**

| Governments       | Ideology     | (i) Rate Structure                      | (ii) Property Value Assessment                 | (iii) Exemptions |
|-------------------|--------------|---|--|------------------|
| Gov 1 (1989-1992) | left         | progressive - barred in court (0.08-5%) | update market values + annual inflation        | enlargement      |
| Gov 2 (1993-1996) | right        | flat (0.6%)                             | flat update above inflation                    | reduction        |
| Gov 3 (1997-2000) | right        | flat (1%)                               | annual inflation                               | reduction        |
| Gov 4 (2001-2004) | left         | progressive (0.8-1.8%)                  | update market values + annual inflation        | enlargement      |
| Gov 5 (2005-2008) | center-right | progressive (0.8-1.8%)                  | annual inflation                               | reduction        |
| Gov 6 (2009-2012) | center-right | progressive (0.8-2%)                    | update market values + annual inflation        | reduction        |
| Gov 7 (2013-2016) | left         | progressive (0.7-1.9%)                  | update market values + annual inflation        | enlargement      |
| Gov 8 (2017-2020) | center-right | progressive (0.7-1.9%)                  | flat update above inflation + annual inflation | reduction        |

Source: City Council and City Hall of São Paulo. Author's elaboration.

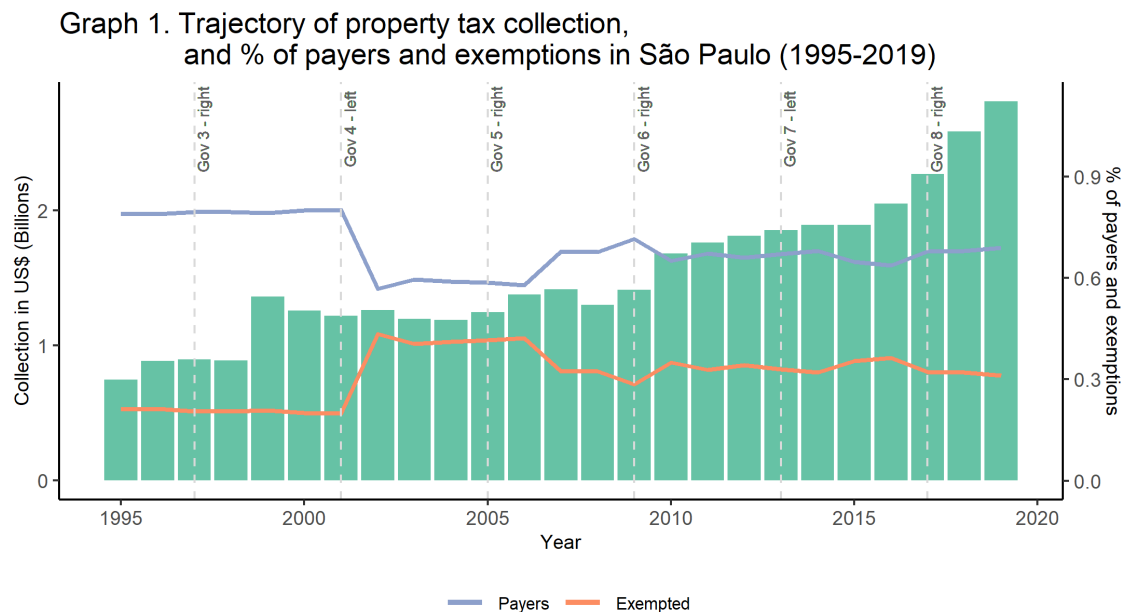
Looking from a longer perspective, we see that after the redemocratization and the new constitution in 1988, left-wing governments sought to implement progressive rates, regularly update property values by market values and annual inflation, and expand the number of exempt. This began with Gov 1, which had its legislation questioned in the judicial arena in its third year of government by organized representatives of commerce, industry, real estate and the main opposition party, which, in addition to being interested in seeing the opponent's defeat, publicly defended being against the measure.

During the 1990s, right-wing governments guided their policies by flat rates (the same rate for all properties), also homogeneous updates above inflation with maintenance of annual inflation and tax exemption cuts. All measures have a regressive effect, charging more from those who own properties with lesser value and preserve gains and benefits for the largest property owners and those with greater value.

In Gov2, the property tax grows again and resumes its previous levels (MINARELLI, 2019). However, despite the increase in collection, it is done on other bases: with flat rates and under the constitutional minimum of 0.6% - the lowest rate since 1964 - and reduction of exemptions. The economic stability of a new currency reduced inflation, which made the updating of the calculation basis of property values sufficient for there to be a large increase in revenues with the structure of the most regressive policy of the period.

The improved economy was not enough to preserve the Gov3 mayor amid the acute shortage (SCHICK, 1976) of municipal finances and corruption and public debt scandals. In order to expand the tax collection and try to save his government, there was an

increase in the flat rate and a reduction in the number of taxpayers, something that can be seen in Graph 1.



The mayor of Gov 4 is elected, promising to implement progressive property tax rates in the city, given the recently approved constitutional change that removed any doubts about the possibility of applying progressive property tax rates (EC29/2000). The policy that was implemented by Gov1, questioned in the judicial arena and set back in the years of the right, remained in latency (MARQUES, 2021) and returned in another political, electoral and economic context with another left-wing government. Measures were approved and instruments created (LASCOUTES; LE GALES, 2007) that this time produced “ratchet effects” related to the median voter theory (MELTZER; RICHARD, 1981), since once implemented they became very costly to be removed by politicians opposites. In this sense, it also represents a critical juncture, as it changes the trajectory of politics thereafter.

As will be better discussed in the next section, the difficult consensus in accepting the implementation of progressive rates was reached with the creation and implementation of a new instrument by the government: the annual increase locks. Legally, whether in collective actions of general legal effect or in individual legal proceedings, the main arguments used - and accepted by the courts - are related to the abusive increase in the tax at once, in such a way that it would constitute confiscation of property. With the locks, even with an update of the calculation base with a survey of market prices - therefore, certainly above inflation, given the lag of public records -

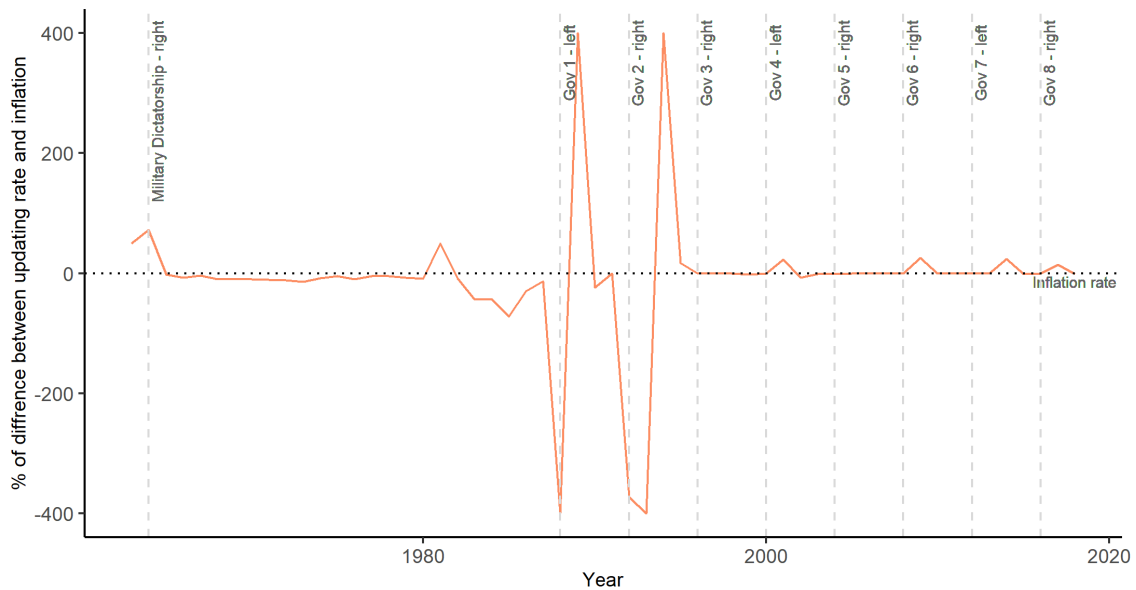
the annual increase in taxes would be limited in a scalable way over the next 4 years (or until the next government)<sup>5</sup>.

As we can see in Graph 1, the collection levels are maintained with another tax structure: progressive rates, updating of the calculation basis by market values and an increase in the tax exemption rate from around 14% to 35% of taxpayers. From then onwards, we see the maintenance of this rate structure and the establishment of new exemption levels, although the trend is for a reduction in right-wing governments. The main subsequent dispute will be the systematic update of the property values calculation basis, as shown in Graph 2. The first reason is so that there are no distortions on taxpayers, given the differential variations in property prices in the city and over time, which without updating benefits the owners of properties with greater value and in the process of appreciation. The second reason is so that there is no loss of revenue due to depreciation of the price base. This will only be resolved politically by a reform of Gov 6 in 2009, which will also be covered in the next section. It came after the City Council opened a Parliamentary Commission of Inquiry into under-taxation and bribery schemes in property tax policy. The reform requires every elected mayor to update the calculation base in his/her first year in office. This obligation to update could also be considered another instrument (LASCOUMES; LE GALES, 2007) that started to depoliticize another central element of dispute in politics, removing the issue from the agenda and forcing politicians from all positions in the ideological spectrum to follow it – what characterizes the institutionalization of progressive elements of fiscal policy. A costly political problem for every ruler is no longer a matter of political position and is now accepted and carried out by everyone more regularly.

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<sup>5</sup> Although it should be celebrated as an instrument that enabled the construction of a consensus and the depoliticization of an issue as central as the need to update the tax base on real estate property, it has regressive effects, as it mitigates the effects on the most valued property owners and also limit the more agile redistributive action by the city hall.

Graph 2. Rate of updating values of property tax calculation base in relation to inflation rate - São Paulo (1963-2018)



Source: City Council and São Paulo Municipal Finance Department. Author's elaboration

However, even with this new consensus on politics, disputes and strategies are operated by actors in these new contexts. Both right-wing governments continued to carry out flat updates, as well as organized actors and right-wing parties returned to the judicial arena as a means of seeking to stop or delay tax reforms by left-wing governments.

In another case that will be discussed later, Gov 7, the politicization of the tax was such, at a time of crisis in which the city once again became the stage for national agendas and actors, that the same actors who turned against the increase in the Gov 1, launched again into the public and judicial arena and managed to temporarily suspend the validity of the law, which accentuated progressive aspects, such as higher taxation on areas and properties of higher value, increase in the level of exempt and differentiation of properties by pattern, value and location (previously just pattern and value).

Some authors will relate the rationality of mayors regarding tax-related reforms and their desire for re-election, assuming the negative effects they would have on electorate preferences in the electoral arena (GOTTLIEB; HOLLENBACH, 2019; HOLLENBACH; SILVA, 2019). For them, in large cities, not even second-term rulers who would not seek re-election would have incentives to reform property taxes. What we see here is that, in the case of the largest city in the country, with great inequalities and competitive elections, all governments are looking to increase their tax revenue. However, they do it differently, according to different instruments, visions, interests and strategies.

Right-wing governments also seek to increase tax revenue through property tax reforms, but they do not do it anyway: they are in a regressive direction (increase in flat rate in the case of Gov 3, flat update and decrease in exemptions in Gov 2, 3.5 and 8), or mitigating the existing progressive effects (through new rate ranges, new categorizations and value limits by Gov 6), or, in some cases, strategic measures to strengthen the bureaucracy. These are measures that can be considered of *easy redistribution* (HOLLAND; SCHINDER), together with policies to increase indirect taxes, as they seek to achieve some level of redistribution through state action, avoiding facing central organized interests, such as urban capital.

As we will see later, right-wing and center-right governments tend to pursue direct tax reforms based on speeches of blame avoidance, seeking to mitigate possible adverse effects on their constituency. In the case of left-wing governments, the logic is inverted: they seek to defend politically and publicly that the stance of increasing direct taxes in a progressive sense has been assumed.

## **5. How progressive reforms get in place**

### **Gov 4 – Window of Opportunity, Redistribution and Credit-Clamming**

The case of the law approved by Gov 4 is relevant because it changes the structure of undifferentiated rates (flat rate) to a structure of progressive rates according to the value and use of the property. This occurs after the express introduction in the Constitution of the possibility of differentiating tax collection according to value, use and location. In an economically unfavorable context (stagnation), with recent changes in the structure of public financing at the federal level, but with the municipal agenda marked by collapsing finances, corruption and under-taxation scandals, and the possibility of implementing the progressiveness of the property tax, the government will know how to use a window of opportunity (KINGDON, 2014) to implement the party's old agenda.

Some aspects are noteworthy. First, the unusual debate in the electoral arena guided by the media and institutional changes at the federal level. Second, the negotiation strategies with organized actors in different arenas and the instrument innovation (LASCOUMES; LE GALÈS, 2012) of the tax locks, that blocked most part of veto points. Third, the repertoires of action of organized actors and the government to mobilize public opinion support and pressure councilors to vote according to their interests. The mayor makes use of credit-clamming strategies (WEAVER, 1986) in conducting the negotiations, knowing how to mobilize support from a relevant part of the electorate and neutralize the main opposing positions and arguments inside and outside the

Chamber, articulating problems solutions, technical solutions, and political leadership as a political entrepreneur.

However, Gov 4 approves the measure amid a series of conditions of different nature and due to a set of interacting factors. First, as institutional constraints, at the federal level, new political arrangements were being produced based on broad consensuses around the reforms and regulations of the 1988 Constitution. The change in municipal financing structures (OLIVEIRA, 2012; PERES, 2018) (OLIVEIRA, 2012; PERES, 2018) and reform that provides legal certainty for the use of progressive rates for property tax appear then as central elements and a *si ne qua non* condition for this result.

These changes have an impact on the public debate and on the electoral arena, where, against the evasion patterns identified in the literature, the debate on the property tax and the implementation of progressive rates was put on the agenda. The election of the mayor, making an explicit defense of the proposal, confirms her irreducible search for its implementation as the agenda of her party, using a credit-clamming attitude (WEAVER, 1986). In this way, from the beginning, it emphasizes the gains of a larger group of its constituency, even though using different tactics in different arenas.

Continuing the discussion that had started in the electoral arena, debates in the public arena also start early in the first year of government, which gave time for different actors to debate the agenda. The search for articulation with the main organized social actors who would be able to seek to veto the proposal in the judicial arena, before closing its proposal for submission to the City Council, gives the government an advantage. In this sense, it adjusts its expectations through the innovation of a fiscal instrument (LASCOUTES; LE GALÈS, 2012): the annual increase locks. This neutralizes the main strategy that had been used so far to block the implementation of progressivity.

The organized actors of commercial, industrial, real estate market and workers' representation seek to accompany this government movement, which is able to satisfactorily neutralize economic and judicial arguments, leading the debate to political terms of winners and losers with the new distribution of tribute charge.

The government achieves a relative neutralization of part of the construction business through negotiations on other reform fronts, such as zoning and resumption of investments in public works, such as educational equipment and bus lanes. But their collective representation organizations continue to take a stand as part of the group of public entities that are against the proposals. Foreseeing that they would no longer have room for debate with the government after the early radicalization of their positions at the start of negotiations, part of the city's business community moves towards the strategy of mobilizing public debate and putting pressure on councilors with little expressive and ineffective public demonstrations.

The government starts using the same strategy and supports the mobilization of social housing movements and trade union centrals in favor of the project. In addition, it uses the State structure to communicate directly with the policy's final beneficiaries, seeking persuasion, support, and a reduction in the feeling of imminent losses due to the uncertainties of the changes communicated in the media. It gains support from a significant part of the electorate - as it increases the tax exemption rate to 40% of taxpayers - and guarantees discipline from the base, with pressure on councilors.

The strategy of seeking to maximize the gains of the concentrated part of her electorate, even with costs compared to other actors, led the mayor to lead the negotiation and mobilization process with actors organized with real and apparent benefits (population of the peripheries and social movements) and gave advantages to the government in the process of measuring support forces and opened up different negotiation fronts.

In a case of change with high apparent costs and low information about the effects of the policy, it mobilized a significant portion of voters, giving them a demonstration of the benefit they would have: a letter of exemption. With the City Council, even though it had the support of a stable coalition, it had resistance and high bargaining costs. To reduce them, she used the embarrassment of the allied base against its electorate (letters to the exempt) and negotiated other specific benefits: new positions, amendments and exemption for religious temples.

The exemption policy that had been used for a long time as a benefit to the city's lower income strata, residents of lower-value real estate, has relevant political-electoral weight in terms of the median voter theory (MELTZER; RICHARD, 1981), since the costs of its withdrawal are high, even though they imply a drop in revenue. However, the design of the policy generates an increase in tax revenue and legitimizes the proposal as a whole, even with strong resistance inside and outside the Chamber.

Politically, the strongest positions are from the closed opposition against the government on the right and center-right. In the debates, it is clear that the indisposition of part of the government base takes place in two ways: the ideological and the political bargain. The second wins, overlapping the first, showing the strength of the government's strategy of producing stable and broader coalitions, as is clear in the speech of a councilor<sup>6</sup> and also in interviews with councilors from different parties.

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<sup>6</sup> Councilor Dr. Havanir (PRONA) amidst scathing speeches about the change in tax at the second Public Hearing. "I am here to say, as a representative of the people, that there will be no change. At the table we have the majority of the government base. The Finance Commission is composed of the government base." (PA PL606/2001, p.201).



## **Gov 6 – Deslocando para o Legislativo e para Corrupção**

The case of Gov 6 interests us because it shows how right-wing governments seek to reach higher levels of revenue, while taking into account the interests of different groups in their electorate, which in the case of a large city in the Global South that has great inequalities, it is also made up of beneficiaries of the tax's progressivity. This case helps to think about the theory of party government (ESPING-ANDERSEN, 1991), in which only left-wing governments would be interested in establishing tax collection increases as a means of producing investments to ensure better services and income redistribution.

The decisions taken during the Gov 6 government not only raised the tax collection level, but also implemented improvements in the tax policy. The periodic review of the tax calculation basis was approved, the collection of luxury properties and non-residential properties was improved, and the number of properties exempted by retirees was limited to a single dwelling. Thus, it was against the interests of industrial, commercial and construction sector actors – traditionally their allies and against this type of policy –, against part of the middle and upper class electorate who elected him (LIMONGI; MESQUITA, 2011; SILOTTO, 2017 ) and against the position that had been taken by its allied base in the City Council.

To understand how this was possible, it is necessary to take into account some elements. The first is the need to seek more revenue identified by the mayor in the half of the previous government to carry out some programs. He was discouraged by his political supporters as it could hinder re-election and withdrew from the measure. After re-election, the mayor increased the tax above inflation in order to generate cash in the first year of government. This generated strong reactions from elite neighborhood groups, rentier voters, retirees and other organized actors who began to occupy the front pages of newspapers before the start of their second term. In the first month of government, the newspapers reappear in an allegation of a bribe scheme for under-taxing the property tax involving large enterprises, such as supermarkets, shopping malls, soccer stadiums and luxury stores. At that moment, a new window of opportunity for change appears, albeit less structural and generally in the direction of previous changes.

After this journalistic under-taxation scandal that could have severe effects for the government in front of the electorate, the mayor activates his base of support in the City Council and the councilors use the Parliamentary Inquiry Commission as an instrument to shift the debate to a restricted and controlled arena, where they have privileged resources, being able to constrain the main interested actors – organized or not –, avoiding the accountability of specific actors and maximizing the gains in a collective and dispersed way. The Executive's strategy is highlighted in seeking to

mitigate real and perceived political effects of these measures through blame avoidance strategies (WEAVER, 1986), avoiding adherence to the responsibility of these decisions that went in the wrong direction for part of its constituency. The Executive practically abstains from appearing in the process of formulating and negotiating solutions publicly, avoiding a central role in the distributive conflict and relegating this role to the Legislative – usually supporting the process.

After the implementation of the progressive rate structure by Gov 4, the other central element to guarantee the progressive effect on the property tax is the regular updating of the tax base (CARVALHO JR., 2006). The mayor and several other political actors involved in the CPI realize that they need to increase tax collection, which is politically very costly and that the best way to solve the problem is to institutionalize the periodicity of the update. Thus, a new consensus is produced on the positive effects of lowering political and economic costs and greater social justice due to the Executive's obligation to ensure the review of property values at least once at the beginning of the term.

The overlapping of the commission's process with the processing of the Executive's proposal and the character of the measures submitted show that the CPI was a relevant arena for exposing interests and negotiating with the main organized actors that could serve as a veto in the public and institutional arena.

The opening of the commission right at the beginning of the first year of government - admittedly the moment when proposals for the most relevant reforms in the fiscal area are made, to be forwarded and approved in the second semester and implemented from the second year of government -, shows that councilors were strategic and took advantage of the public scandal and institutional opportunities they had to pull the center of gravity in formulating the proposal to the Chamber of Councilors. The house became a privileged space for negotiation, giving the legislature a favorable and more relevant position in the process than it had had in other reforms.

At the same time that they put the Executive in check, being able to make bigger and old demands, they mediated between different interests, neutralized possible reactions of these same interests - pressing them in an arena in which they are usually seen as pressure vectors -, through agreements of a legal nature and, very likely, also illegal. That's because, once the CPI was established, the investigations were carried out and the under-taxation schemes were identified, no one was held responsible – neither bureaucrats, nor businessmen, nor politicians. The identification of those responsible will only be carried out four years later, with investigations by the police and justice.

Credit-clamming, both in the media, in documents and interviews is done collectively, as a victory for the City Council. This attitude does not cease to be, as analyzed by Weaver (1986), a way of avoiding accountability (blame avoidance), through the diffusion of responsibility to the greatest number of policymakers possible. Publicly, the

situation was a zero-sum game, with not a single piece of news about the commission being found that year.

Councilors collectively imposed a victory over the Executive, produced public policies and, individually, seem to have had relevant gains against a government that had an interest in the proposal and in avoiding being held responsible for it. The mayor, when asked about the issue of raising the property tax, only said that nothing was defined and that the proposal would only be discussed in December – when in the public and media arena, practically nothing is adhered to and many measures go without the mobilization of society.

The government is victorious insofar as it manages to benefit from increased revenue with a policy that meets the different interests of its constituency, without being held responsible for possible real or perceived losses – aiming to minimize possible electoral losses.

Thus, the approval of this project seems to have been made possible by a combination of factors. On the one hand, the rise of a new group of parliamentarians that changed the balance of support negotiations; public dissatisfaction with the increase in the property tax on rentier groups in elite areas, with the implementation of the restriction measure of exemption benefits for only one property, a group that has more expression in the media and pressure in the corridors of the chamber with these centre-right councilors; the vision of the opportunity for this group of legislators to obtain greater power and strength from the government and from non-state actors seems to have created the conditions for the establishment and advancement of the reform project.

On the opposition side, the chance to pressure the government to implement measures that they deemed correct from the point of view of public policy, defended at other times, and to make a profit politically in the face of a scandal by a center-right government seems to have been decisive.

The government wanted the tax increase knowing that its electorate would not spare it from criticism. So he negotiated with allies in the City Council to take advantage of the media scandal and focus the scene on them. The councilors who usually do not participate so centrally in this discussion accepted the window of opportunity and quickly set up the CPI, which at no time threatened the government - giving room for policy improvements and even active participation and political gains for the opposition as well.

With the power of the instrument of inquisition that the CPI gives them, councilors summoned and negotiated in a favorable situation with the main interests around this policy, being able to gather their opinions regarding the changes they sought to make. At the same time, they formulated and forwarded their visions on the reforms, nullifying relevant actors from trying to veto the changes and producing a new consensus. The

government sidesteps the pressure and publicly defends the measure, producing an accommodation that would also benefit it with an increase in tax collection and a discourse of social justice, while also trying to minimize the effects on its middle and upper class electorate and win against the low ones. income. Interestingly, in newspaper opinion columns at the time, the reform is supported by its secretary of trajectory and broadly liberal positions alongside the former Gov1 finance secretary, advocate of progressivity, who accuses the government of exaggerating at the time with inconvenient increases. The context – institutional and political – sets the stage and gives the role to the actors.

### **Gov 7 – City taken by national mood, change of strategy and judicial arena**

In this chapter I analyze the only case among the three that had its application suspended by a court injunction after the constitutional reform in 2000, making the judicial arena again relevant to the political dispute over property tax at the local level. The government's proposal was guided by the legal obligation to revise the calculation basis, according to the law approved by its predecessor, and by the search to increase the municipal investment capacity. In a context of economic, political and social crisis with intensifying distributive conflict, the reform focused on increases in the most valuable and non-residential real estate but did not bring changes in the rate structure that were very different or higher than those previously presented. It proposed readjustment of property values at rates below the last two increases (2001 and 2009) and tax increase locks similar to those of Gov 5 and lower than those of Gov 4.

The government was pressured by street demonstrations and allegations of corruption against its party at the national level. Initially, the mayor bets on a blame avoidance strategy, seeking to escape the costs of raising taxes amid a wide cycle of demonstrations for better public services. In a second moment, he tried to create the window of opportunity to earn credits (credit-clamming) for his fiscal policy by fighting corruption and intensifying progressiveness, but it didn't work. The political climate caused national politics to spill over to the local level. The strategy was still limited to the extent that organized actors also have strength in this dispute over the attribution of credits and responsibilities and can become more sophisticated in their strategies to produce accountability (WEAVER, 1986). As an aggravating factor, we have the overlap between organized actors representing industry and construction and political parties. The president of the main organization representing national industry and real estate interests in the city went in search of public credit to become a pre-candidate for governor by a party of the base allied with the mayor. Together with the main opposition party, they were able to use their institutional opportunities to go to the judiciary and block the government's agenda.

The government was defeated in its reform agenda in a fierce dispute against a coalition of different political and social interests organized in a political context of great polarization and intensifying distributive conflict, with the realignment of different social and political party actors.

The mayor initially bets on a blame avoidance strategy regarding his proposal to update the tax base and reform the tax, seeking to minimize losses concentrated in the electorate, especially the middle classes - protagonists of the demonstrations that demanded more efficiency from the State through more and better investments and without increasing individual costs for taxpayers.

The proposal is subordinated to the pace of an operation to combat fiscal corruption (the same as the CPI of the previous government), an area in which it uses a credit-clamming strategy, aiming to maximize gains with this electorate that also he called for the moralization of politics and public administration.

In this sense, even if it had a strategy aimed at maintaining a stable coalition base in the City Council, it does not fully trust its mobilization in any scenario. In the Legislative, it suffered from opposition from allies, mainly due to the speed imposed on the debate, based on an external chain of events, political realignments and negotiations involving different levels of government, elections for governor and president, as well as the difficulty in producing majorities with high party fragmentation and the chosen strategies of relationship with councilors – which were not fully satisfactory. As reported by political actors in favor and against the proposal, it was heavily run over. Still, these obstacles were overcome and the reform approved.

In the judicial arena, then, we see the great institutional opportunity for organized political actors to block the government's agenda and hold it responsible for real or perceived losses – falling incomes, tax increases, job losses and economic recession. Thus, they sought to earn capital (credit-clamming) in front of this electorate with a view to the next electoral cycle. In addition, the government's chances of delivering improvements in infrastructure and services diminished due to the restriction of revenue and investment capacity. From that moment on, when defection costs were high and the responsibility was already publicly imputed to the government, the mayor changed the strategy and went in search of maximizing credits for a significant part of the electorate, in a position of leadership in negotiations and articulations for reverse the imminent suspension of the reform.

In this case, we have enough evidence to think that the approval of this reform takes on a broader meaning than a dispute for a local fiscal policy, unlike the others analyzed. It was part of a field of broader political disputes, in a tactical position in the face of medium and long-term strategies of political actors organized in parties and unions.

This was only possible to the extent that judicial actors also found themselves imbued with institutional activism, voluntarism and growing politicization. If the use of

instruments of judicial questioning of tax legislation were not new in the municipality, this result was. After producing a broad political consensus with the reform of the Constitution in 2000, other actions of this type had been filed by the same organizations representing commercial, industrial, real estate and elite neighborhood associations against the tax, but they had not received in the courts.

We see how the definition of public policies takes place through the action of organized interests that have opportunities and resources to pressure the specific design of policies that are produced in the executive and the legislature (HACKER; PIERSON, 2010), with technical details of rates, real estate valuation data, lobbying, access to the media and privileged access to legal disputes.

During the disputes around this reform, there was an expansion of the coalition of organized actors that had been initiated against the reform of Gov 4 to implement progressive rates, called the Property Tax and Citizenship. It started out formed by 6 commercial, industrial and real estate interest representation organizations in 2001 and had 27 employer, professional and economic sector representation organizations in 2013.

Outside the institutional arenas, entrepreneurs from industry, commerce, construction, elite and middle class neighborhood associations, companies and institutions producing real estate information (EMBRAESP), advocacy entities (Rede Nossa São Paulo), professional representation (Brazilian Association of Economists, the Organization of Lawyers of Brazil, groups of engineers and urban planners) and also part of the written and television media were against the measure. Arguments from the technical authority on the subject were mobilized with the support of specialists from the most varied fields – including those who had already supported measures like this one. News coverage was intense and informed by graphics and maps like never.

Thus, even though we see public manifestations of relevant businessmen admittedly interested in defending the interests of the middle and upper classes, it is only through the understanding of the veto arenas, their rules, distribution of resources and possibilities of participation, the actors who can access it, its resources, interests and strategies, that we can understand how a process like this will be disputed and what its possible results are. The relevance and ability to see and understand the power of different urban capitals in political and policy outcomes involves analyzing their performance in institutional environments, in different decision-making arenas, in relation to actors embedded in political and institutional contexts.

## 6. Conclusion

As main results, firstly, I found that the local Executive power has the strength to implement its agenda in its relationship with the City Council, even in a context of political predominance of right-wing councilors and governments. However, organized political and social actors are able to access the judicial arena in contexts of intensifying distributive conflict as a means of generating political constraints and blocking or delaying reforms by opposing governments, hindering their revenue-raising objectives and their policy implementation projects with potential effects in the next electoral cycle.

Second, in contexts of political and administrative decentralized municipalities, with high levels of inequalities, electorally competitive environment and alternance of power, despite ideological differences, all governments seek to increase the collection and, once progressive rates are put in place by left wing governments, changes in more regressive directions are marginal and difficult to be defended. Nonetheless, they use different instruments and strategies, according to specified contexts and coalitions, in constant search for more resources for delivering policies and raise their chances to be reelected.

On the one hand, left-wing governments are more willing to bear the political costs of structural changes in fiscal policy by resorting to claim strategies for the defense of benefits for their electorate (*credit clamming*) (WEAVER, 1986) and through more *hard redistribution* (HOLLAND; SCHNEIDER, 2017) instruments. On the other hand, right-wing governments, maintaining their positions against the progressive nature of the tax, sought to make changes that ensured gains in benefits for specific groups and higher income strata, but continued to expand some progressive measures and increase revenue through strategies of avoiding liability (*blamme avoidance*) for real or perceived losses in its constituency through more *easy redistribution* instruments.

Third, these changes are cumulative over time and, except for changes in the structure of rates to progressive ones, most part of changes in a more progressive way have been characterized as an incremental progressivism process (MARQUES, 2021), a process of overlapping layers by alternating power over time that accumulates new sources of resources, capacities, expansive and progressive measures, new instruments and institutions, which strengthened fiscal autonomy, tax collection capacity and increased the importance of property tax in municipal revenues.

The results indicate that looking only at what partisan politics, median voter theory, electoral theory, and analysis by the results of fiscal policies in aggregated ways cannot explain why fiscal policies are put in place in a large metropolis of the Global South.

Institutional reforms and federal programs to implement the strategy of fiscal decentralization and local administrative modernization seem to have had an effect and

been a sine qua non condition for changing the context of dispute over public policy on property tax at the local level and have enabled the shift towards greater progressivity.

In addition, public policy instruments are created and put into operation, enabling important changes, which over time take on relative autonomy and have unforeseen long-term effects that must be considered together with the mobilization carried out by the actors according to their interests.

The work also corroborates the need for more case studies on fiscal policies at the local level under an extended time perspective and that considers institutional, political-economic, electoral, and party dimensions, together with the perspective of agents, their interests, and strategies.

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