


ARTICLES/ARTÍCULOS

Class-based taxation: the fiscal paternalism of the Chilean income tax?

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Abstract

This article analyzes the history of the Chilean personal income tax (PIT) to explain the persistence of a class-based and progressive PIT within a context of a regressive fiscal system. We provide new archival evidence regarding fiscal politics since the nineteenth century to estimate the generalization of the PIT between 1925 and 2014. Combining statistical information and parliamentary records, we follow the PIT's trajectory in relation to elites' self-interest, paternalistic understandings of the fiscal pact and citizenship, and the looming presence of natural resources. By keeping the PIT class-based, allegedly to protect workers, fiscal politics defined citizenship through expenditure instead of taxation. Those excluded from income taxation bear the brunt of indirect taxes—which support social spending—albeit without voice over fiscal policies.

Keywords: class-based taxation; fiscal politics; income tax

JEL Codes: A14; H20; N26

Resumen

Este artículo analiza la historia del impuesto a la renta chileno (IRP) para explicar la persistencia de un IRP clasista y progresivo en el contexto de un sistema fiscal regresivo. Aportamos nueva evidencia de archivo sobre la política fiscal desde el siglo XIX para estimar la generalización del IRP entre 1925 y 2014. Combinando información estadística y registros parlamentarios, seguimos la trayectoria del IRP en relación con el interés propio de las élites, las concepciones paternalistas del pacto fiscal y la ciudadanía, y la inminente presencia de los recursos naturales. Al mantener el IRP clasista, supuestamente para proteger a los trabajadores, la política fiscal definió la ciudadanía a través del gasto en lugar de los impuestos. Quienes están excluidos del impuesto a la renta soportan el peso de los impuestos indirectos—que apoyan el gasto social—, aunque sin voz ni voto en las políticas fiscales.

Palabras clave: Impuesto sobre la renta; tributación clasista; política fiscal

1. Introduction

The expansion of income taxes is often associated with bureaucratic consolidation, fiscal obligations, and political rights (Tilly, 1990; Bräutigam *et al.*, 2008; Webber and Wildavsky, 1986), shaping two aspects of state development. At the state structure level, administrative capacities grow by collecting more profitable and wider sources of personal income, even as indirect taxes persist (Tilly, 1990; Scheve and Stasavage, 2016). At the level of social relations, direct income taxes assume individual autonomy in consenting to civic obligations and shape new forms of individualism and citizenship (Timmons, 2005).

Behind both processes, scholars discern a transition from class-based to mass income taxation. If true, income taxation became profitable as the income tax evolved from a tax levied on higher-income groups to a mass-based tax, affecting, in turn, individual motivations to comply with tax obligations (see Levi, 1988). Belief in fellow citizens' tax compliance strongly predicts individual tax compliance (Bergman, 2009); conversely, it leads to resentment (Llacer, 2014). This connection seems so profound that recent turns in social policy investigate how the rise of mass fiscal taxation precedes a wide array of cash transfer policies (Jäger and Zamora-Vargas, 2023).

Despite the adoption of the value-added tax (VAT) (Kato, 2003), today's richest nations still derive most of their revenue from income taxes (Organization for Economic Cooperation and Development (OECD), 2022). While tax credits and income exemptions have expanded, the growth of indirect taxation that the VAT epitomized seems to have remained stable or even declined in the late 2010s.

One notable exception within the OECD is Chile, with over 50% of total tax revenue sourced from VAT and indirect taxes (Organization for Economic Cooperation and Development (OECD), 2022). Despite its state-building success over the nineteenth and twentieth centuries, Chile has historically lacked a mass income tax (Soifer, 2015; Kurtz, 2013; Saylor, 2012). Instead, its capacity to tax natural resources funded infrastructure and education development, and moderated political disputes through elite alliances (Kurtz, 2013). Conversely, political polarization and inflation in the 1950s–1960s were interpreted as the failure of the social and fiscal pact (Hirschman, 1963). A small income tax base, tax avoidance, and evasion became endemic, suggesting a more complex relationship between elites and the state. The introduction of the VAT in 1974 marked a shift, improving tax administration and compliance (Bergman, 2009). The personal income tax remains, however, a class-based tax.

This article explores cultural and structural dimensions of the progressive Chilean personal income tax (PIT). The first encompasses notions of citizenship assumed in fiscal debates. The second refers to the structure of taxation and the role played by the income tax. We trace the general trajectory and persistence of a class-based PIT by combining statistical information, proceedings from parliamentary debates, and records of the *Servicio de Impuestos Internos* (SII). Our analysis identifies the elite's self-interest, shared ideas of paternalism—in contrast to the expected individual autonomy of fiscal citizenship—and the enduring allure of natural resources as key factors shaping a class-based PIT.

The following section discusses the origins and generalization of income taxation from a comparative perspective, followed by a discussion of paternalism. Later, we discuss our sources. The following two sections trace the Chilean PIT from the second half of the nineteenth century up to the latest comprehensive tax reform in 2014. The final two sections discuss our findings and conclude.

2. Origins, understandings, and expansion of income taxation

The evolution of the PIT involves a mix of external and internal factors, where social structures interact with existing institutions and groups' interests. Scholars highlight war demands to explain mass direct taxation (Scheve and Stasavage, 2016; Tilly, 1990), while shocks like natural disasters may also increase revenue to fund reconstruction (Gil and Atria, 2022).

Domestic pressures, such as distributive conflict at the beginning of the twentieth century, led some countries to mass income taxation to fund social security. Mares and Queralt (2015) explain how agrarian groups shifted the tax burden to urban settings when the income tax was introduced in Europe. Intra-elite competition sometimes led to the adoption of income taxes to limit conflict or, through labor market coordination, to sustain expanding welfare (Edebalk and Olsson, 2010; Martin, 2015).

Originally, war demands and domestic political conflicts spurred the taxation of individual incomes in the USA and Europe. This broadened the tax base to support increasing expenditures (Scheve and Stasavage, 2016; Mares and Queralt, 2015; Martin, 2015). The growth of the PIT as a mass visible tax was associated with other structural transformations, such as widespread literacy, a wage nexus, and a sovereign currency (Ardant, 1975).

Mass income taxation involved a revolution in the understanding of citizenship and reciprocal obligations (Tilly, 1990, p.115). While the state gained power to collect revenue through direct taxation, it became dependent on citizen consent. Citizens allowed the state the right to tax in exchange for claiming rights vis-à-vis the state (Tilly, 1990, pp. 101–102). In the early twentieth century, taxation, social solidarity, and economic redistribution became intertwined in welfare states (Rosanvallon, 2013, pp. 165–169). Politically, income taxation led to fiscal citizenship by formalizing a new social relationship based on citizen autonomy, where citizens consented and complied with civic obligations (Martin *et al.*, 2009).

Being direct and visible, mass income taxes mediate state–citizen relations by promoting self-awareness and deepening notions of citizenship and individual autonomy. A broad base frames an explicit understanding of social obligations and rights (Tilly, 1990; Bräutigam *et al.*, 2008).

In stark contrast, Latin American taxation diverged from Western patterns. Wars in the region could not trigger comparable fiscal and bureaucratic muscle levels in Latin America during the nineteenth century (Centeno, 2002). Since independence, debt, natural resources, and consumption taxes have funded the state (Centeno, 2002). Later, faced with distributional conflict at the beginning of the twentieth century, income taxes saw limited expansion, elicited little cooperation, and remained a secondary revenue source (Biehl and Labarca, 2018). Latin American societies rely on indirect consumption taxes like VAT, the only successful mass tax in the region (Bird and Gendron, 2007).

The success of indirect taxation offers a clue to explain the limited role of income taxation. Introduced in the 1970s and 1980s, VATs were less visible and comparatively less costly to implement. They were often introduced in authoritarian settings without political bargaining and could capture incomes from informal labor markets (Bird and Gendron, 2007; Harberger, 1989).

Scholars comparing tax systems in the twentieth century noted the looser connection between taxation and the labor market in Latin America. In contrast to wealthier societies, income taxes could not expand given a limited wage economy (Goode, 1965), rampant socioeconomic inequality (Pinto, 1954; Tanzi, 1966), and the availability of taxes on natural resources (Dunning, 2008). Political defense of elite interests may limit cooperation, but does not necessarily lead to class-based income taxation (Atria, 2019); mass income taxation, in fact, may align with elites' interests by raising revenue from wider sections of

society. Overall, existing institutional capacity and interactions between state and elites are crucial to explain regional fiscal development differences (Rodríguez-Franco, 2016).

Together with different structural conditions, we still need to investigate how elites and society culturally understood income taxes. This article examines how income taxes took root within the cultural imaginings of political elites and society.

We can examine shared meanings of fiscal obligations by distinguishing adversarial and cooperative relations between states and elites (Gallo, 1997). Lieberman (2003) illustrates how Brazilian racial politics weakened cross-class cohesion, increased the political salience of regionalism, and limited state capacities to levy domestic taxes. Elites' divisions by regional lines resulted in an adversarial tax state. Similarly, Sánchez Román (2012) shows how the 1932 Argentinian PIT lost the cooperation of the elites when they felt threatened by Juan Domingo Perón's government. As a result, both the Argentinian and Brazilian states aimed to gain cooperation from their elites in paying new types of taxes by appealing to their interests and oversight over fiscal policy. In contrast, Rodríguez-Franco (2016) reveals how Colombian elites consented to domestic wealth taxes to protect their interests and how patriotism cemented a cooperative relationship as the state fought insurgency in the 2000s. However, these same examples show the limits of mass-based income taxation. Argentinian and Brazilian accounts of the income tax through elite-state adversarial relations leave the issue of wider social obligations as a secondary concern. At the same time, the analysis of wealth taxation in Colombia provides further insight into class-based taxation.

3. Distinguishing paternalism

The key question revolves around how taxation formalizes reciprocal obligations. In settings where fiscal citizenship developed, income taxation visibly tied citizens to the state through tax forms and a broader tax base and collectively experienced emergencies such as war and shocks. Without widespread income taxation, we explore how reciprocal obligations were experienced and developed through institutional channels. In this article, we reconstruct the trajectory of the Chilean PIT following structural and cultural processes.

Structurally, Chilean taxes have consistently been discussed concerning the abundance of mineral wealth: nitrates, copper, and, recently, lithium fuel a sensation that personal taxation may be less important. The income tax emerges when taxes on natural resources fail. Taxes on mineral exports and mining companies were not only profitable. They shaped an understanding of domestic taxation as relatively unnecessary, limiting the idea of individual tax obligations towards the state.

Culturally, during the formative years of the PIT, labor market paternalism shaped reciprocal obligations. Paternalism features gift exchange and reciprocal favors to motivate loyalty in the receiver (Goodell, 1985). Research underscores the hierarchical nature of work relations in Chile mediated by paternalist ideas of reciprocal favors (Rodríguez and RíoS, 2009). In early twentieth-century US industrial development, paternalism was often associated with wage efficiency, i.e. attempts to motivate a more productive labor force through wages and non-monetary benefits above market-clearing levels (Swenson, 2002). In the early part of the twentieth century, Latin American paternalism stressed loyalty and dependency on employers (Winn, 1986; Cousiño, 1990).

In this vein, paternalism helps elucidate fiscal debates centering around the state's obligations to the poor and middle classes, aiming to foster loyalty rather than expand civic duties like taxation. While literature often refers to clientelism to illustrate societal-state relations in Latin America, through vote buying, for instance, we argue that paternalism provides a more fitting framework for understanding Chilean fiscal debates. Clientelism binds the loyalty of specific groups to individual leaders through personal relations with them or their mediators. In contrast, paternalism reflects a broader attitude of Chilean

political elites toward the citizenry and the role of the state. The state limited a shared understanding of citizens as taxpayers through paternalism, which became a relevant factor in explaining the absence of fiscal citizenship throughout most of the twentieth century.

Similarly, paternalism differs from broader concepts such as populism. Populism, like clientelism, offers the illusion of personal political mediation and understands reciprocal obligations through gift-giving for loyalty, but its aims in Latin America extend beyond individual relationships. Populism can encompass ideas of national solidarity, unity against perceived imperialism, charismatic leadership and identification, and prioritizing dignity over material support (Conniff, 2012). Paternalism, conversely, offered perceptions on mutual obligations during structural transformations, such as shifting revenue from mining, to address increasing social demands for social and economic development.

Clientelism, populism, and paternalism involve gift exchange, but paternalism stands apart by emphasizing class obligations but promoting a diffuse institutionalization of state-society relations. In this context, elites accepted the income tax obligation as a duty, even if nominally in some instances, thereby gaining political leverage. Though they acknowledged the state's responsibility toward the poor and middle classes, they stopped short of framing citizenship as a shared fiscal obligation.

Were paternalistic norms prevalent at the time of the PIT's enactment? According to Vergara (2013), paternalism influenced Latin American labor markets in the early twentieth century as a strategy for human resource management in US companies' mining camps. This approach enhanced productivity and fidelity through monetary and non-monetary rewards. However, paternalistic norms predate modern mining. Medina Echavarría (1998) drew parallels between large *haciendas* and paternalistic practices. Paternalism, characterized by reciprocal exchanges of assistance and fidelity, was evident in both urban industries and rural *haciendas* during this time (Alexander, 1962; Medina Echavarría, 1998; Rodríguez and RíoS, 2009). In the following sections, we explore the legitimation of a narrow-based income tax rooted in a paternalistic relationship between the state and the poor. This attitude underwent significant changes during periods of rapid economic and democratic transformations in the 1990s and 2000s, when debates on social policy raised issues of social rights.

4. Sources and limitations

We use the comprehensive economic history database compiled by Díaz *et al.* (2016) for the broader tax revenue trends. This database provides a robust set of quantitative social and economic indicators to examine the main development patterns between 1810 and 2010.

Legislative (DSCD) and statistical records from official documents provide additional data. We use the first to document political elites' attitudes toward the PIT. Legal and administrative sources by the *Ministerio de Hacienda*, presidential *decrees*, and the revenue service are then used to reconstruct the evolution of the PIT tax rates and minimum exemptions. Tax rates can be consolidated for the whole period. This is a crucial aspect of our argument because tax rates were often discussed in the context of diminishing returns from mining, and to underscore the civic responsibilities of elites in supporting the state and financing growing social demands. Reconstructing the evolution of minimum exemptions, however, presents some distinct problems. Before the introduction of vital wages in 1955, exemptions, family deductions, and other allowances were set nominally each year. After 1955, exemptions were expressed in vital wages. However, currency changes to control inflation, from pesos to escudos in the 1960s and escudos to pesos in the 1970s, complicate estimations. Given this complexity, we opted to provide specific examples of how exemptions and deductions worked. This also limits our empirical findings as we could not calculate

an effective or average tax rate for the whole period. We provide effective rates reported by specific year studies by the *Ministerio de Hacienda*, but the entire statistical series is incomplete for reasons we discuss later.

We made this decision because we rely on legislative, legal, and institutional records to document elite attitudes toward the tax base, manifesting in tax rates and exemptions to display solidarity. More importantly, individuals included in the statistical records submitted a tax form to claim deductions. If the connection argued in the literature between tax form completion, the tax base, and visible civic duties holds true, it is more relevant to our objectives to illustrate changes in the tax base along with parliamentary debates.

To this end, we use statistical records of taxpayers and levels of evasion. However, data on the number of taxpayers and rates of evasion are challenging to obtain. We consulted official documents by the *Servicio de Impuestos Internos* (SII) and its predecessor, the *Dirección General de Impuestos* (DGI), including the *Boletines de Estadística Tributaria*. This annual report, published since 1957, compiles official information on all existing taxes and their collection, including data on individual taxpayers and companies classified by variables such as income, tax brackets, and occupation. However, it is essential to note that the statistical series is incomplete. The number of taxpayers is fragmentary, with gaps in reporting even in more recent years. The issue of incomplete data has also been highlighted by Flores *et al.* (2020), who used these official sources to compute top income shares and document historical inequality. We rely on official studies to document tax evasion, using them to gauge compliance levels amidst fluctuation in tax rates and fiscal discussions.

In addition, data for the non-progressive dimension of the income tax—which was divided into schedules—between the 1920s and 1970s are also missing, making it difficult to compare the proportional and progressive dimensions of the income tax.

5. Origins of the PIT

This section traces the origins of the progressive PIT from desperate temporary fiscal measures in the late nineteenth century. Resistance to state assessment of individual incomes inhibited its collection, but, crucially, ideas of fairness in exempting the masses and understanding taxation as an elite duty shaped a paternalistic view of state policy. Chile's modern PIT was finally enacted in 1924–1925 as a response to domestic distributional struggles and global uncertainty regarding mining revenue.

5.1. First attempts 1860s–1910s

In this period, comparative scholars have extensively analyzed the growth of Chilean state capacities compared to other Latin American nations. Elites overcame collective action problems to set an efficient state for infrastructure and education investment (Engerman *et al.*, 2009; Vom Hau *et al.*, 2023). However, while the state collected a wide array of taxes and provided public services, taxation remained regressive with limited revenue from direct income taxes, particularly during export booms (Sokoloff and Zolt, 2007).

Chile's main political parties broadly agreed on economic policies centered around an efficient state with fiscal capacities to tax international trade and internal consumption. Sater (1976) shows how this arrangement offered protection, promoted some domestic industrial development, and allowed urban and rural elites to circumvent bargaining of domestic taxes.

An early attempt to introduce a PIT proved as short-lived as the crisis that triggered it. First enacted in 1866 to fund mobilization against Spain, its implementation was frustrated by restricted institutional capacities (DSCD, 1866, pp. 21–22) and the end of the war a few months later. Though never enforced, the 1866 law established a precedent (Sater,

1976, p. 324), and Congress enacted a second PIT in 1879. Although proposed amid a global economic crisis, only the War of the Pacific (1879–1883) spurred elites to tax themselves again.

Success in war proved the end of the PIT. Chile annexed vast nitrate-rich territories, and export taxes soon became the principal source of state revenue (Gallo, 2008; Sicotte *et al.*, 2008). Between 1881 and 1891, governments steadily reduced direct taxes on property, income, and inheritance (Bowman and Wallerstein, 1982, pp. 446–448; Loveman, 2001, p. 160; Nazer and Llorca-Jaña, 2024). Privacy concerns and perceived unfairness limited the scope of direct taxes. In 1883 President Santa María (1881–1886) supported abrogation of the PIT arguing that its enforcement would entail “inquiries both odious and against our habits” (DSCD, 1884b, p. 103). In 1884 a liberal deputy advocated the suppression of unfair direct taxes to “alleviate the people” (DSCD, 1884b, p. 100). Appealing to the welfare of the masses played into the elites’ economic interests by reducing their own contribution.

Just as adverse external conditions led to the PIT’s enactment, the following feedback of positive external conditions led to its demise. While some direct taxes were transferred to municipal control in 1891, they were hardly enforced (Bowman and Wallerstein, 1982: 448; Marshall, 1939). Both conservatives and liberals saw these reforms as the return to fair fiscal management. Similarly, the economic turmoil occasioned by World War I led to a third temporary PIT in 1915, but improved economic relations with the USA and growing exports were enough to abolish it the following year (Loveman, 2001, p. 173).

State revenue rested on taxing external trade and consumption. The nitrate boom provided resources to develop public institutions and infrastructure (Saylor, 2012), and created an illusion of unlimited wealth that lessened pressure for domestic taxation. Export booms fueled this illusion and allowed domestic fiscal politics to recede among the political pre-occupations of the day. As critics soon pointed out, these conditions created fragile public finances. Raúl Simón, an engineer at the National Railway Company and future Director of the Budget Office (1927–1930), complained that governments had turned military victory into fiscal defeat (Simón, 1922, pp. 161–162).

This formative period sits well within debates on natural resource abundance and their interaction with fiscal imperatives under external pressure and war (Centeno, 2002). Chilean political elites began to cohere around a discourse that emphasized their own contribution betraying, as well, a benign attitude to the rest of society: one that should be exempted from shared fiscal obligations.

5.2. The modern PIT (1924–1925)

Chile’s PIT was enacted in 1924–1925 as a response to fiscal and institutional crises (see the fall of revenue before attempts to enact income taxes in Figure 1). Structurally, the PIT would fit explanations that stress domestic political struggles under industrial transformation (Mares and Queral, 2015). While volatility in export markets harmed state revenues after World War I, domestic political conditions were becoming more challenging with added social unrest and political mobilization.

Figure 1 illustrates early attempts to introduce the PIT together with the total tax revenue as percentage of the GDP (trends are similar using nominal revenue). War configured the main critical junctures in 1866 and 1878 which, at the time, coincided with a decline in exports and revenue. Attempts in 1915 and 1919 offer a more complex scenario, characterized by both distributional conflict and worsening trade during and after WWI. Unlike earlier attempts, the modern PIT is enacted at a time of growing revenue and state intervention.

Even if turnout in the 1920 Presidential Election was only 5% of adult population, working and middle-class groups were gaining voice through new political organizations. This

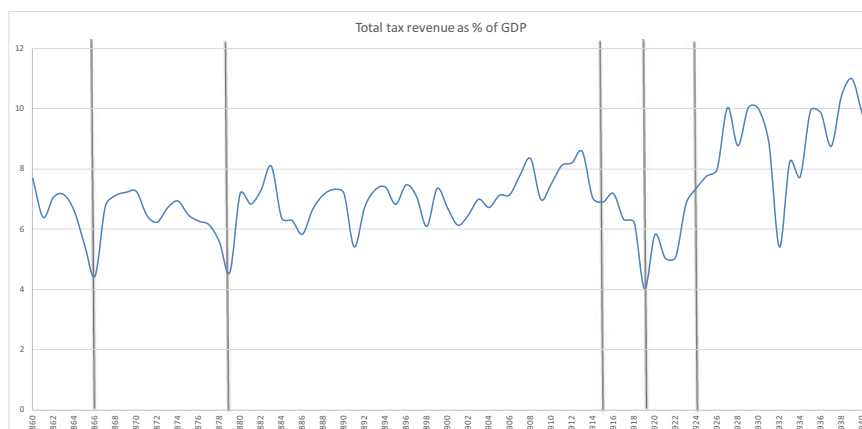


Figure 1. Origins of the PIT and total tax revenue as percentage of GDP.

Source: Authors' elaboration based on Díaz et al. (2016). Vertical lines mark attempts to introduce the PIT.

political transformation might have broadened the scope of ideas surrounding taxation and challenged traditional elites' understandings of paternal policies. For instance, the working-class *Partido Demócrata* supported the abolition of consumption taxes and the enactment of a progressive PIT (Recabarren, 2015[1907], p. 138; Loveman, 2001, p. 166). Subsequent events converted elites to the PIT, which they now saw as necessary to modernize the state and prevent social unrest (Faúndez, 2007, p. 69; Kurtz, 2013, pp. 131–150).

In 1919, *Partido Radical* deputies presented a bill for a progressive PIT, arguing it was “the most scientific and fair of all taxes” as it existed in France, the USA, and the UK (DSCD, 1919, p. 22). The bill targeted high incomes (DSCD, 1919, p. 24). As Deputy Pablo Ramírez summarized in 1921, introducing domestic taxes targeting economic elites was indispensable to abandon the regressive “oligarchic system of indirect taxation” (Silva, 1998, p. 61). Deputies from the *Partido Radical* argued that implementing a PIT would not intrude in private life.

The 1920s continued the 1919 debates. This time the discussion did not revolve on the need for a PIT but over its shape (Marshall, 1939). After 3 years of legislative discussion, a proportional schedular income tax was enacted in 1924. While President Alessandri Palma considered progressivity the utmost expression of social justice (Alessandri, 1967, pp. 374–375), others, e.g. the Association of Manufacturers (SOFOFA), rejected it as onerous and unfair (Agostini and Islas, 2018, p. 215). The initial bill's progressivity was deemed unconstitutional by the Senate, as it deviated from the principle of equality before the law.

After a severe crisis, a new constitution promulgated in 1925 gave the president ample powers over fiscal reform (Faúndez, 2007, pp. 62–73; Loveman, 2001, p. 102). The progressive PIT, called Global Complementary Tax, was finally enacted in 1925. Income taxation was divided into two different taxes, a schedular proportional tax and a progressive PIT targeting all incomes. The six categories of the proportional tax were divided by income source and structured the schedular tax for 40 years: real estate, capital assets, industry and commerce, mining exploitation, wages, and incomes derived from liberal professions and lucrative occupations.¹ The minimum threshold for each category varied and was a

¹ Data on this schedular component is limited. The minimum threshold was different for each category of the schedular tax. One gets a glimpse of how this tax worked through Decreto 2106 (1954) which legally consolidated the income tax—both the schedular and the progressive components. For instance, all wage earners could discount 24,000 pesos per year. In the case of the progressive tax (PIT), the first 100,000 pesos were exempt. Computing the total rent, the PIT offered deductions of 60,000 pesos to married couples. If both generated incomes, they could

function of income source. These categories had a considerably lower exemption rate than the PIT.

The brunt of the PIT was placed on the wealthy. Months after its enactment, the government followed the US-led Kemmerer mission's recommendation and sought to remove exemptions and tighten collection procedures (Drake, 1989, p. 105; Lutz, 1926, p. 141). Exemptions covered a wide variety of claims. These included fixed amounts of income for dependents and students, interests on debts and mortgages, endowments and donations, income and property taxes paid in the previous fiscal year, costs incurred by the taxpayer to improve public roads (e.g. landowners), and medical bills incurred by the taxpayer or his dependents, among others, could be claimed against the tax. Each threshold of the tax carried its own exemption rate (Labarca and Biehl, 2022). Given data availability, this article focuses on the Global Complementary Tax which is the Chilean equivalent of a progressive PIT.

Pressure from below and a shared understanding of fiscal justice among the elite meant that the PIT would be levied on a small segment of society. Discursively, while nineteenth-century elites resisted the PIT because it worsened social inequalities and intruded into private life, between 1919 and 1925 elites argued the need for a PIT as a way of protecting wage earners and the poor. Given uncertainty over mining revenues and international prices, both left- and right-leaning parties in Congress argued that social policy should not be funded through the incomes of the poor and the working class. In the 1920s, paternalism became an attitude embraced across the political spectrum, specifying the state's role in development as well as elites' responsibilities for taxation.

6. Trajectory of the PIT: reforms and political consequences

6.1. First period (1930s–1950s)

PIT performance was volatile but improved significantly in the 1960s, amid attempts to curb evasion, cope with external constraints, and boost institutional capacity. Soon after the tax's enactment, policymakers began to complain about mounting tax evasion and lack of elite cooperation (DEF, Departamento de Estudios Financieros, 1954; Hanson, 1936). In 1927, the Minister of Finance asked the Catholic bishop in Santiago to preach tax compliance as a civic duty and instructed the Supreme Court to punish evasion severely (Bernedo, 1989, pp. 21–22).

The campaign against evasion failed. As the wealthy continued to evade, tax administrators argued that the PIT lost its objective and was no longer progressive (SII, Servicio de Impuestos Internos, 1960, pp. 367–368). Echoing national experts, in 1957 *The New York Times* noted: “for all but a few, in a nation rich in resources, life has become a desperate battle of low incomes against high taxes and fearsome prices... Tax evasion by the wealthy must be stamped out” (Szulc, 1957).

Several changes marked fiscal discussions. The most salient was the transition to state-led development and import substitution strategies, which framed policies for domestic industrial relations and wages. Debates on income taxation involved a paradox. While there was consensus on the fairness of a small-base PIT, seen as the responsibility of the elites, there was also growing awareness that the rich were not fulfilling their obligations. Experts noted low compliance and inefficient use of tax revenue to fund state economic activities.

Experts anticipated two common explanations of tax evasion. Aníbal Pinto Santa Cruz, a CEPAL economist, underscored the costs of collection and auditing. In 1954 he observed that

deduct 30,000 between them. Deductions of 30,000 were also allowed to caregivers for each family dependent (offspring, grandchildren, or siblings under the age of 21 years or parents, grandparents or siblings aged 60 years or above and with proven illness).

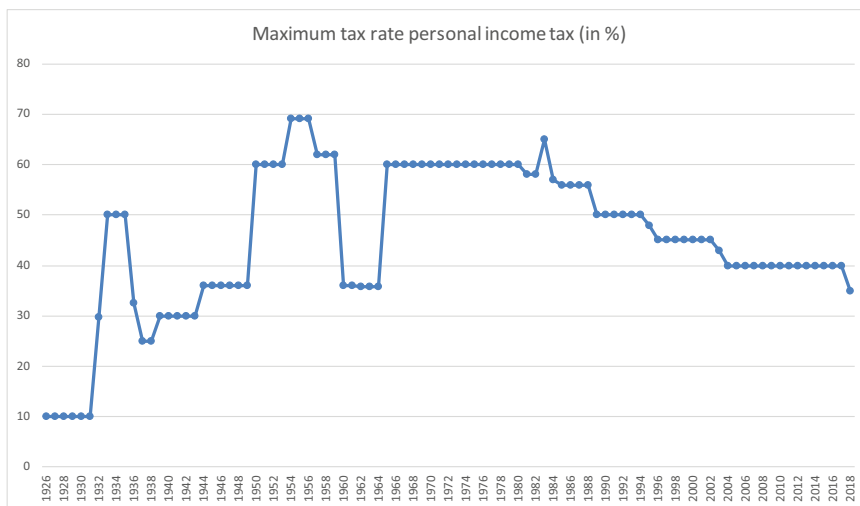


Figure 2. Evolution of top marginal tax rates.

Source: Authors' elaboration based on permanent and temporary legislation.

while 50,000 individuals were bound to PIT assessment, given the structure of individual incomes, theoretically at least 150,000 should have been liable to pay tax. He lamented that only about 15% of tax forms were assessed by the fiscal authorities (1954, p.189). Official documents from 1956 showed that only 29 individuals paid the top marginal rate, which was considered low given existing conditions (SII, 1960, p. 357).

If Pinto stressed fiscal capabilities, Vito Tanzi associated compliance to tax morale and coercion. He suggested that evasion was particularly rife between the 1950s and 1964. By 1964, he noted, only about 2% of the Chilean population paid the PIT with just 0.5% falling in the top marginal rate. Moreover, he concluded, nobody faced imprisonment for failing to pay taxes (Tanzi, 1966, pp. 158–9). Although not a direct measure of tax evasion, these figures reinforced a widespread perception that the rich were non-complying.

However, the PIT faced some difficult first years. The 1929–1933 crisis severely hit the economy (Figures 1 and 2) and triggered a default. Reforms were quickly passed to alleviate the burden on the schedular tax. The exemption threshold of the PIT was increased and temporary surcharges on high rents added (lasting four years). In 1939, a devastating earthquake led to the creation of temporary surcharges for high incomes (lasting until 1956), after President Aguirre Cerda (1938–1941) asked Congress for extraordinary resources for reconstruction (DSCD, 1939, p. 525). Just like in 1929, there were calls on the elites to shoulder reconstruction. Reforms were justified by underscoring national solidarity and stressing elite's obligations to the rest of society (Gil and Atria, 2022).

In both crises, the PIT became legally more progressive around a smaller base. This played into shared ideas of fairness given widespread poverty and economic insecurity. Policy makers expected a return to commodity booms and revenue from mining activities and regarded PIT changes as temporary. Moreover, officials noted that continuous increases in tax rates led taxpayers to believe that the tax burden was rising, resulting in tax fatigue. Factions of the economic elite capitalized on this feeling to prevent further reforms (Labarca and Biehl, 2022).

These two crises along further mobilization may have eroded the paternalistic tone of previous fiscal debates. Center-left governments may have discouraged elites from paying

taxes, similarly to the Perón effect on elite compliance (Sánchez Román, 2012). However, there was wide consensus on state-led development. On top of that, the fact that left-leaning parties expected further contributions from the rich, framed as a civic duty, might have, alternatively, reinforced paternalistic attitudes.

Conflicting policy goals hindered stable agreements over medium-term fiscal policy. Albert Hirschman (1963) noted that rising conflict without a social pact on wages and taxes, led to a cycle of inflation. He reported annual averages of 6%, 3%, and 7% for the decades 1910–1920, 1920–1930, 1930–1940, respectively. However, inflation surged to 18% and 36% for 1940–1950 and 1950–1960. The accumulated inflation in these two last decades reached 412% and 2089% respectively.² These trends would soon affect discussions on income tax and the relationship between its schedular and progressive components.

While the onset of inflation over the first part of the twentieth century in Europe allowed for the expansion of the income tax base, as erstwhile excluded groups would be dragged into higher brackets (Torregrosa-Hetland and Sabate, 2022), the reaction of Chilean elites was markedly different. Exemption rates were increased partly to prevent lower-income groups from paying the PIT. Inflation by itself could not turn a class-tax into a mass-income tax (Torregrosa-Hetland and Sabate, 2022) as elites justified tax policy in the name of the working classes.

Given conflicting economic objectives, strengthening institutional capacities was crucial to boost tax assessment and enforcement. According to President Ibáñez (second mandate, 1952–1958), the system was plagued with inconsistency (DSCD, 1953, p. 2107). Despite their “known regressive social effects,” public finances increasingly relied on indirect taxes “due to the impossibility of extending the enforcement of personal income taxes adequately” (ibid., p. 2107). Tax legislation underwent frequent revisions to improve compliance and stabilize performance. Over 250 changes were made between 1924 and 1954, with 18 condoning bills between 1947 and 1958 alone (SII, 1960, p. 351). As a result, revenue, brackets, and number of taxpayers oscillated significantly.

Between the 1920s and 1950s, nominal tax rates rose and became more progressive (Figure 2). While revenue from the PIT grew slowly in the 1920s, it substantive increased in the 1930s and 1940s. From 1947 onward, revenue from the PIT stagnated (Figure 4). While legally, the PIT reached peak progressivity by the mid-1950s, its contribution to total revenue began to decline. In 1950, it accounted for 3.9% of total revenue, dropping to 1.9% between 1955 and 1962 (Labarca and Biehl, 2022).

As the legal structure of the PIT shows (Figure 2), the top marginal rate was increased to 50% as part of temporary measures to tackle the 1929–1933 crisis, later reaching 69% (a new formal rate of 62% plus transitory surcharges) in the 1950s. During this period, inflation was addressed to foster fairness. Brackets were set nominally until 1955, then they began to be indexed to inflation through “vital wages,” which ended the artificial addition of citizens into higher brackets (or fiscal drag) (Ffrench-Davis, 1973, pp. 159–160). This was relevant for the schedular tax: wages (fifth category) were withheld at source, by the *patrón* or employer, since the tax enactment in the 1920s (Decreto 225, 1927; DGII, 1958). However, inflation carried little drag for wages liable to PIT because they were not withheld at source until the 1970s as we later explain. In other words, PIT revenue did not increase relative to other sources, including the schedular tax on wages which had important repercussions in public debates. Unlike workers, PIT taxpayers could defer payment and devalue their taxes through inflation (Labarca and Biehl, 2022).

Political consensus favored targeting the higher incomes, yet there were evident signs of noncompliance. To prevent taxing workers, exemption rates were repeatedly adjusted

² A complete series in Clio Infra suggests even higher numbers for the annual change of prices in this period. See de Zwart, Pim 2015–12-13 2015 IISH Dataverse <http://hdl.handle.net/10.622/UJ3H1Qhdl/10.622/UJ3H1Q>.

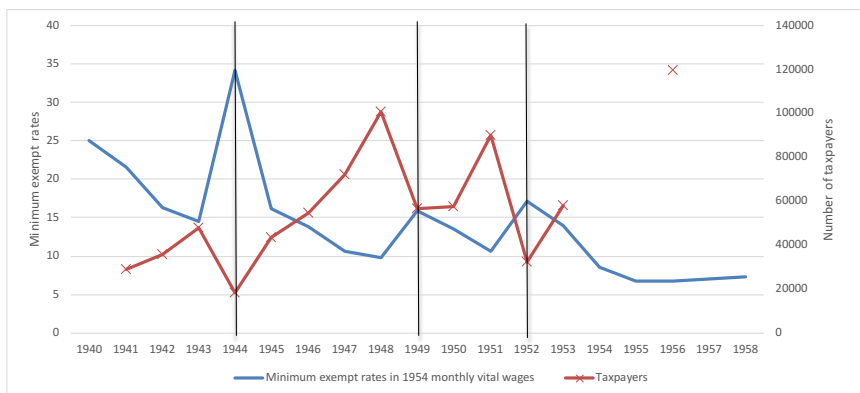


Figure 3. Minimum exempt rates and number of taxpayers.

Source: Authors' elaboration. Minimum exempt rates in vital wages index based on SII (SII, 1960, p. 346). Number of taxpayers based on DEF (Decreto 2106, 1954, p. 35) and SII (SII, 1963). Vertical lines mark major legal adjustments in top marginal and exemption rates.

(Ffrench-Davis, 1973, pp. 153–160; DEF, Departamento de Estudios Financieros, 1954, p. 6). This explains sudden fluctuations in the official number of taxpayers—e.g., 20,000 for 1944 and 100,000 for 1948 (see Figure 3). Experts warned against including workers in the PIT and proposed leaving them in their respective schedular category, fearing an “extremely disheartening psychological effect” (Pinto, 1954, p. 189) that undermined the idea of a generous state. In an unequal society, promises to protect workers left fiscal politics in the hands of the nominally taxpaying elites.

Data for Figure 3 derives from a study by the tax office (SII, 1960) that translated exempt rates of the previous period into the new scale based on vital wages after 1955. After 1955, exempt rates are more stable and taxpayers increase. The figure can be further contextualized. Taking estimations of the Chilean work force (Díaz *et al.*, 2016) and census data on active population (aged 15–65 years), in 1950 taxpayers would range between 2.6% and 1.6% of people in working age respectively. In 1960, these figures range between 1.4% and 0.8%. The fiscal situation was comparable to that of other Latin American states. In 1952, less than 1% of Colombian citizens paid the progressive PIT, equivalent to 107,394 taxpayers. In 1954, only 1.5% and 0.5% of the population paid the tax in Argentina and Brazil correspondingly (CEPAL, 1956: 144).

However, fiscal politics dealt primarily with the taxation of foreign-owned copper companies. By the 1930s, copper had displaced nitrates as the main source of revenue. *Socialista* and *Comunista* parties advocated for higher copper taxation and promoted nationalization, which would make broadening the PIT's base unnecessary. Only nationalization would avoid additional tax burdens (DSCD, 1954, pp. 4584–6). Despite representation of a wider array of political feelings, Chilean fiscal politics still centered on elites' responsibilities.

Just like their nineteenth-century counterparts, political actors saw the progressive PIT as a measure of last resort. Fiscal policies benefited from a paternalistic approach to income taxation, assuming it could sustain the state during economic dips if applied to a small base. Tax base modifications were driven by the need to compensate revenue losses from drops in copper prices. While income taxes did provide relief from trade cycles, the tax system's performance and structure remained tied to external conditions. In the 1950s, 70% of non-copper tax revenue was derived from indirect taxes (CEPAL, 1959, p. 5), deviating from the

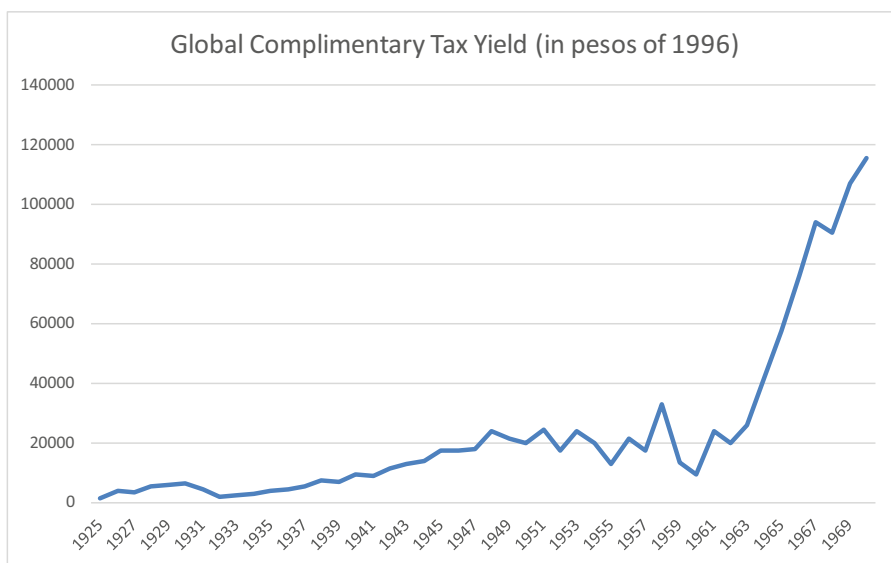


Figure 4. Yield of the global complementary tax (in pesos of 1996).

Source: Authors' elaboration based on Díaz *et al.* (2016)

explicit economic goals of shielding the economy from trade cycles and boosting domestic industrialization (see Peres-Cajías *et al.*, 2022).

Poverty, inequality, and evasion dominated tax debates. Legal and regulatory fragmentation allowed elites to resist reforms that weakened their grip over fiscal affairs (Boenninger and Wainer Kopels, 1965, p. 6), prolonging a paternalistic approach to taxation. Efforts to eliminate tax expenditures faced opposition from agricultural interests (World Bank, 1958, p. 6; DSCD, 1956, p. 2570). Tensions between self-interest and social justice characterized these debates, revealing the limitations of income taxation to promote fiscal citizenship and formalize obligations. Paradoxically, keeping taxation class-based seemed to undermine compliance among higher income groups.

6.2. Second period (1960s–1970s)

PIT salience in public opinion was minimal. For the public, social spending rested on the ability to tax foreign-owned mining companies, whose role was prominent and contested. The export of natural resources significantly shaped coalition-formation, elections, and public perceptions of taxation. Copper mining embodied both the hopes and disappointments of developmental efforts.

Figure 4 shows the PIT yield in pesos of 1996. Given the importance of mining revenue in the whole tax structure, we focus on the growth of the PIT yield. As a percentage of fiscal revenue, the growth is relevant, increasing from less than 2% in the 1930s to about 4% in the 1950s and between 6% and 8% in 1970 and 1971 (Díaz *et al.*, 2016). There are notorious dips in the period. In 1960, less than 1% of total revenue derived from the PIT after a major earthquake. Despite low fiscal capacities and low compliance noted by experts, revenue from the PIT began to increase consistently in the 1960s. During this period, three emblematic governments symbolized renewed projects of social progress that saw in domestic taxation new alternatives for state-led development.

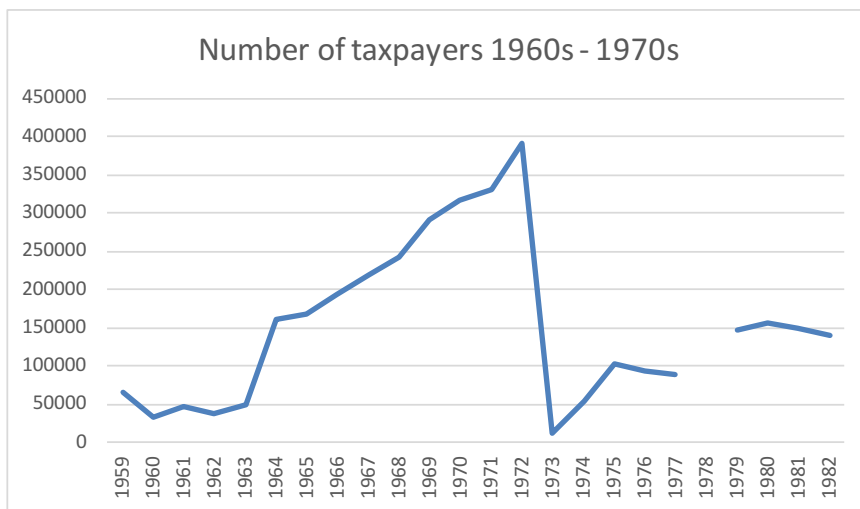


Figure 5. Number of taxpayers, global complimentary tax 1960s–1970s.

Source: Authors' elaboration based on SII (1963, 1963–1977) and DGII (1961).

During the administration of right-leaning President Alessandri Rodríguez (1958–1964), the PIT was central to debates over fairness, development, and geopolitics. To prevent wage earners to be dragged into the PIT, the exemption rate increased to three vital salaries, producing a drop in the number of taxpayers between 1959 and 1961 (Figure 5). In 1958, the Budget Director raised concerns about tax expenditures as “advantages (...) which serve as a basis for tax evasion and (...) complicate the audit process” (Agostini and Islas, 2018, p. 223). However, the 1960 earthquake prompted additional temporary measures (Gil and Atria, 2022). US aid for reconstruction under the *Alliance for Progress* shaped a major tax reform. Presented to Congress in 1962, it aimed to “make the tax system more rational and fairer” (DSCD, 1962, p. 4698). Enacted in 1964, the reform simplified income categories into two according to source (capital and labor), reduced the exemption rate to one vital wage, increased the top marginal rate to 60%, introduced progressive family deductions, and established a tax fraud department (Tanzi, 1966, p. 169). The number of taxpayers increased substantially thanks to the reduction of exemption rates and simplified categories, boosting the PIT yield (Figures 4 and 5). Given the development goals, reconstruction aims, and foreign pressure, the reform was framed in the language of elite fiscal patriotism.

Of the three governments of this period, Alessandri Rodríguez's is rightly regarded as the least progressive. However, on the fiscal front, the PIT became a relevant tool for revenue collection and the 1964 reform garnered additional development support from the USA. Yet, the reform maintained a complex system of tax expenditures and overlooked the effects of inflation on lagged-paid taxes. While Alessandri condemned exemptions for benefiting the wealthy (Alessandri, 1963, pp. 64–65), the administration believed in tax expenditures to promote private investment (Ffrench-Davis, 1973, p. 173). The class nature of the PIT was justified in terms of social justice and economic efficiency, and its base continued to expand into the 1970s.

Despite the 1964 reform, the PIT's relevance in the public imagination was overshadowed by larger debates on nationalizing mining industries and land reform. Programmatically more ambitious, during the administration of Christian Democrat Frei

Montalva (1964–1970) domestic taxation became tied to a reformist agenda. Land reform gathered pace while educational and democratic initiatives required further funding.

The politization of fiscal obligations had the potential to challenge the paternalistic outlook of taxation and social policy. Reforms were framed as fulfilling social rights. Political reforms raised electoral registration to near 70% of adult population, bringing new unsatisfied demands (Hamuy, 1971, p. 498). Frei's program promised structural transformations, significant economic redistribution, and public investment (Labarca, 2017).

A tax reform was crucial to deliver Frei's program and featured during the election campaign, promising increasing progressivity of taxation. Domestic tax reform was explicitly linked with economic redistribution and development, aiming to "increase direct taxes on the wealthy and diminish indirect taxes that affect the people" (PDC, 1964, p. 7), along with adjustments to income tax to account for inflation (Ffrench-Davis, 1973, p. 175). However, unlike Alessandri, Frei could not deliver a comprehensive tax reform. Instead, his administration implemented incremental modifications to the tax structure, including higher marginal rates, new consumption taxes, and added capacities to combat evasion (Arellano and Marfán, 1987).

Congressional opposition prolonged discussions on the progressive tax on wealth (targeting property, stocks, and motorcars), though its fiscal impact was negligible (Arellano and Marfán, p. 142). This debate echoed earlier discussions on state intrusion into private property. Efforts to foster legitimacy through fairness and the paternal responsibility of elites were undermined by the predominance of indirect taxation on transactions and sales, which were cheaper to bargain and collect. Although the PIT saw an increase of both taxpayers and revenue, tax expenditures persisted, keeping a narrow base (Ffrench-Davis, 1973, p. 179). Toward the end of the administration, policymakers lamented that the tax burden on the private sector "had gone too far" (*ibid.*, p. 180).

Contemporary observers noted the contrast between elites' purported responsibilities and effective evasion, which seemed insurmountable. Due to the system's complexity, estimating evasion is difficult. In 1962, the finance minister acknowledged that the legal progressivity of the PIT had little real impact as it only affected 2% of the more than 60,000 limited liability company shareholders (Mackenna, 1962, p. 43). By 1969, some authors estimated an erosion rate—exemptions and special cases plus tax evasion—of 40% for the PIT. Interestingly, this rate was lower than the erosion calculated for two categories of the schedular tax: income from liberal professions (70%) and capital (60%), neither of which was withheld at source. Conversely, erosion of workers' wages in the schedular tax amounted only to 5% likely due to withholding. Finally, for consumption taxes erosion was estimated between 50% and 80% (Arellano and Marfán, 1987; Foxley *et al.*, 1980).

In this context, policymakers felt a greater sense of urgency, prompting them to seek short-term revenue sources. This trend partly follows the script of other Latin American societies, where state actors prioritize short-term gains when alternative lucrative sources of income become available (Sánchez Román, 2012).

Despite its ambitious goals of income redistribution and development, Allende's left-leaning administration (1970–1973) pursued limited domestic tax reforms. Economic plans relied on revenue from nationalized industries and mining. Efforts to reduce consumption taxes and tax expenditures were opposed by Congress (De Vylder, 2009, p. 93). The government shielded wage earners by doubling the exemption rate, resulting in a dramatic fall of the number of taxpayers by 1973 (Figure 5). Another relevant reform created a single tax on labor, merging the second category of the schedular tax (on labor income) with the PIT. Since then, formal workers earning above the PIT's minimum threshold had their tax discounted monthly rather than paying it in instalments *after* filling an annual tax declaration (DSCD, 1972, p. 2909). Wages above this threshold began to be withheld at source.

The *Unidad Popular*'s road to socialism crystallized decades of growing economic nationalism. Nationalization of the copper industry, with unanimous congressional support, and state intervention in the economy expanded significantly. Economic nationalism promised social welfare, labor rights and development, viewing natural resources as the crucial fiscal dimension to promote social justice and avoid conflict over domestic taxation. Given pervasive inflation, widespread inequality, and poverty, relying on natural resources seemed logical. However, this approach consolidated a top-down understanding of taxation as political and economic elites, not workers, advocated for workers' interests through fiscal politics. Spending was understood as a charitable gift from this expanding state which fragmented workers' collective action (see Oxhorn, 1998, p. 228).

Industrial relations literature suggests that paternalism remained significant in the labor market (Winn, 1986). While notions of elites' responsibility and fairness weakened in parliamentary debates, both left and right political blocks supported a class-based income tax to protect workers and ensure a more efficient use of natural resource wealth.

Following the political struggles over the PIT, Figure 5 maps the growth of taxpayers up to 1972 and then an abrupt decline in Allende's last year. As a percentage of the workforce (Díaz et al., 2016), the trend grows from 1.4% in 1960 to almost 14% in 1972. Among those aged 15–65 years, census data shows an increase from 0.8% to 6% in the same period. By 1973, PIT taxpayers were less than 1% of the labor force but grew in the early 1980s to about 4%. By 1982, the PIT would account for about 5% of total fiscal revenue (Díaz et al., 2016).

6.3. Third period (1973–1980s)

Pinochet's dictatorship (1973–1990) blamed the 1970s economic debacle on the private sector's tax burden (Cheyre, 1986). Market-friendly reforms put an end to import substitution and state-led development strategies. The private sector assumed a larger role, leading to a radical transformation of social security while social policy focused on poverty. In 1974, the regime restructured and simplified legislation, indexed taxes to inflation, abolished taxes on wealth and capital gains, reduced taxes on profits, and introduced a 20% VAT to replace a myriad of consumption taxes (Arellano and Marfán, 1987, p. 148). The reform aimed to cut the overall tax burden and implement "neutral and efficient" taxes on consumption (Ffrench-Davis, 2010, p. 194).

An erstwhile narrative conjuring efficiency and social justice was redefined in the language of market reforms. Such optimism inspired the introduction of the VAT that Álvaro Bardón, President of the Central Bank (1977–1981), called for the gradual elimination of the PIT and its replacement by the VAT to boost investment (Bardón, 1981). The PIT was considered to disincentive economic growth. While Bardón's proposal to repeal the PIT was not implemented, it is a radical example of a vision that became widespread. The VAT became the most productive tax with noted regressive effects during this period (Engel et al., 1999).

In 1974, the dictatorship still viewed the PIT as a necessary measure aimed at the wealthy, but a significant overhaul in 1984 drastically altered its progressiveness. Top marginal rates were lowered (Figure 2) and brackets expanded, capital and personal taxation were reintegrated by allowing corporate taxes on withdrawn profits as credit on shareholders' PIT (Ffrench-Davis, 2010, p. 194). Although the VAT would yield 41.4% of total revenue in 1985, compared to the 13.9% of all direct taxes (Larrañaga, 1993, p. 25), the dictatorship underscored the tax fairness of this arrangement (Pinochet, 1984).

On cultural terms, the dictatorship saw citizens as beneficiaries rather than policy enactors. And yet, it added complexity to the understanding of taxation. By focalizing aid, it could have reinforced paternalism between state and citizen. Alternatively, through market dynamism and encouraging individual savings for social security, it incentivized autonomy and potentially shaped new perspectives of individual agency and meritocracy (Araujo and

Martuccelli, 2014). The fiscal result was a less progressive PIT within an overall regressive system of revenue collection, where the most vulnerable received focalized social protection without explicit contribution demands. This remarkable continuity with Chilean fiscal history occurred amid significant transformations in labor market social relations.

6.4. Fourth period (1990–2000s)

Following the return to democracy, the center-left coalition *Concertación* won the 1989 elections promising “growth with equity” (*Concertación*, 1989, p. 14). President Aylwin’s (1990–1994) administration proposed a tax reform, indispensable to “conciliate economic development with social justice” (Aylwin, 1990). The reform would not only fund the new government’s program; it symbolized “a sovereign act of solidarity, distinctive of nations that treasure stability, social peace and an active incorporation of the marginalised to the benefits of growth” (Aylwin, 1990). The promise of tax reform for a new social pact marks a brief period in which domestic taxation became politicized—as in the first half of Frei Montalva’s government—and was discussed in relation to public expenditure and social rights.

At the same time, the reform sought to consolidate a new political consensus and was enacted in 1990 with support of the main right-wing opposition party after only three months of negotiations (Marcel, 1997). The reform was moderate, involving a mild increase in the PIT on high-income groups, and “passed so quickly that it happened almost without notice” (Boylan, 1996, p. 8).

These reforms stirred political passions at the extremes of the political spectrum. For the far right, attempts to increase taxes were seen as detrimental to a successful economic model. For the far left, these reforms amounted to an endorsement of market economics. The fiscal consensus between center-left and the center-right parties (the Christian Democrats and *Renovación Nacional* mainly) rested on mass VAT and moderate changes in the PIT structure (Boylan, 1996). A state could be small but professionally efficient in fighting poverty and improving market dynamism. The *Concertación* (1990–2010) attempted to legitimize democracy through economic growth. Economic expansion allowed to sustain social expenditures, help people out of poverty, and keep private sector confidence (Huneus, 2014).

In these two decades, the tax burden saw minimal change. In 1996, PIT brackets were reduced from 8 to 7 and the top marginal rate lowered to 45% (Figure 2). Political opposition from the right and business circles limited tax expansion. President Lagos’ administration (2000–2006) bargained a 2% increase in corporate income tax in return for lowering the top marginal rate from 45% to 40% (Figure 2) (Fairfield, 2015, pp. 83–86). To appease *Concertación*’s left-leaning sectors, who rejected lowering the top marginal rate, the minimum exempt was increased (Fairfield, 2015, p. 84). Net tax revenue remained equal, but economic growth and higher wages increased the number of taxpayers. At the same time, the 1990s and early 2000s reflected a period of higher trust in tax officials and taxpayers. The public trusted the SII’s ability to combat evasion with widespread belief that most people were fulfilling their obligations (Bergman, 2009). Prominent cases of corruption and tax evasion would change this perception in the 2010s.

These decades witnessed a new version of the nineteenth century’s argument of state encroachment on private life. When Congress debated evasion, opposition to allow tax authorities access to taxpayers’ banking records hardened. Right-leaning parties and economic elites successfully impeded efforts to empower tax administration’s auditing powers arguing that “it can be used for any purpose ... which amounts to intruding into persons’ private lives” (BCN, Biblioteca del Congreso Nacional, 2009).

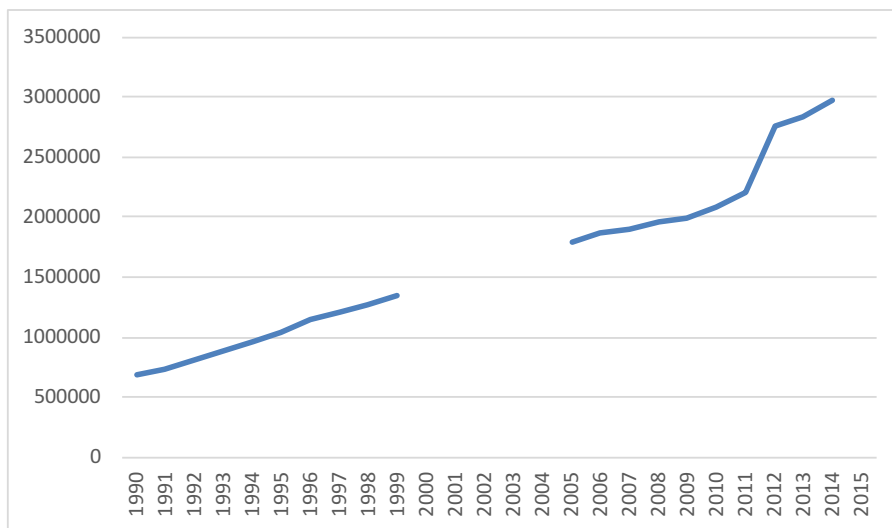


Figure 6. Number of taxpayers, global complimentary tax 1990s–2010s.

Source: Authors' elaboration based on SII (SII, 2000, 2023). Data for the early 2000s are missing.

Michelle Bachelet's (2014–2018) return to power in 2014, along a new center-left coalition, sought to strengthen public education through a structural tax reform. The campaign elevated taxation to an unprecedented level of public salience (Agostini and Islas, 2018, p. 234). Like the reforms of 1964 and 1990, the reform was discussed with the explicit goal to fund redistributive policies, but this time understood as social rights. The finance minister explained to the Senate that more than a half of the additional resources would be spent on education (Arenas, 2013), with the rest earmarked for other social policies. Despite the government's congressional majority, there was internal dissent within the coalition. The bill passed after bargaining with opposition parties, resulting in exemptions that limited the scope of the PIT.

Figure 6 shows that the number of PIT taxpayers has steadily grown. While in terms of revenue it oscillated between 3% and 4% in the 1990s, it reached 9% in 2009 before stabilizing between 7% and 8% in 2020s (SII, 2023a), accounting for around 2.5% of GDP. These figures correspond to a significant increase in taxpayers from 4% of the Chilean workforce in the late 1980s to about 16% in 2016 (Díaz *et al.*, 2016; SII; SII, 2016). This growth is partially attributed to the withholding at source of the second income tax category (wages) in addition to the declared PIT.

This period ends with a conscious effort to leverage domestic taxation for improving access to opportunities and address existing inequalities. This effort follows a wider global trend to fund non-contributory social policies through general revenue. While the latest reform explicitly tied taxation to free university education, the trend had started before with social pensions (since 2008) to deal with labor market informality and low individual contributory capacities. The decoupling of labor market dynamics from fiscal and social policies may suggest a shift away from paternalism in favor of individual agency and social rights (Jäger and Zamora Vargas, 2023). However, at the time of the 2014 reform, taxes were not salient in public opinion polls and could hardly be framed as a dimension of fiscal citizenship (Biehl *et al.*, 2019). The language of social rights alone, without explicit fiscal contributions via an income tax, may not be enough to overcome paternalism.

Indeed, subsequent years have seen calls for further taxation of the rich—prompted by notorious cases of evasion—as well as debates regarding the potential revenue from lithium extraction in the 2020s. Alongside the fiscal reforms of the 2010s, these recent discussions raise several questions for future research, such as deepening views on meritocracy, autonomy, and agency (Araujo and Martuccelli, 2014; Frei *et al.*, 2020). If paternalism no longer shapes labor relations, it could well correlate with more individualistic understandings of state-citizen relations. Yet, decoupling social policy from contributions and the income tax could reinforce paternalism, as a gift without tax obligations. Overall, this presents a fertile area for studying how taxation can motivate reciprocal obligations and compliance within evolving economic relations.

7. Discussion

This article explored the structural and cultural factors shaping the PIT. Despite its level of institutional development, Chile did not experience a transition to mass income taxation that other democracies witnessed to conciliate their distributional conflicts. In 2016, only 16% of the adult population was liable to pay the PIT (SIL, 2016), a proportion that has been consistent in the last decade, while the overall tax system is known for its limited redistributive capacities. This speaks of a significant continuity in Chile's fiscal history. The history of the Chilean PIT enhanced what we term fiscal paternalism: income taxation originally featured as an upper-class burden. With democratization and market growth in the twentieth century, this unintentionally empowered elites in fiscal matters and limited fiscal citizenship.

The trajectory of the Chilean PIT exhibits both continuities and discontinuities with other Latin American experiences. In most Latin American countries, the income tax emerges when revenues from commodities fall and overshadow discussions on domestic taxation (Biehl and Labarca, 2018). Alternatively, the Chilean trajectory is quite noticeable in terms of timing of the first attempts to create a PIT, the growth of state capacity and the use of natural resource wealth both to fund development and lessen internal conflict. The continued endurance and administrative growth of the modern PIT since 1924 reflect such a trajectory.

Though different in many ways, Uruguay serves as an insightful contrast. Both are seen as regional success stories. Between the 1920s and 1970s, both countries followed a similar incremental trajectory of democratic pacts, resulting in generous social security systems (Mesa-Lago, 1985). And yet, Uruguay lacked a robust PIT in this period. The income tax was introduced in 1960 and repealed in 1974 (Harberger, 1989). Instead, the country relied on trade and consumption taxes to fund pension and social reform (López-Alves, 2002; Finch, 1981). It could be argued that wage councils allowed for some labor market coordination lessening distributive conflict, but similarly to Chile, domestic struggles were not framed in terms of fiscal citizenship.

In countries where the income tax became a mass tax, struggles for recognition of individual autonomy and material redistribution played a part. This was crucial to consolidate an individual understanding of responsibility and citizenship aiding both mass compliance and social spending (Scheve and Stasavage, 2016). Following this clue, one alternative would involve delving into how social relationships were understood within fiscal debates.

First, both left- and right-leaning political parties framed domestic taxation in terms of mining export cycles. Would it be fair, they argued, to tax workers given the lucrative export of nitrates and copper? The fact that some of these mining companies were foreign owned only added to their sense of social justice.

Second, income taxation highlighted an uncomfortable truth for political and economic elites. Narratively, they understood their reciprocal obligations in terms of paternalism.

Charity and support for workers and agricultural laborers reflected a hierarchical notion of society. In 1971, the Spanish sociologist José Medina Echavarría argued that social dynamics in *haciendas* shaped paternalism, the reciprocal exchange of loyalty for economic security, in modern economic enterprises (Medina Echavarría, 1998). Monetary and non-monetary support in exchange of personal loyalty characterized paternalism in urban and rural settings affecting work relations to this day (Alexander, 1962; Medina Echavarría, 1998; Rodríguez and RíoS, 2009; Cousiño, 1990).

Third, when the income tax was adopted, elites resisted the idea of taxing the poor. They saw tax payment as their own responsibility, driven either by self-interest to oversee fiscal matters or shared cultural norms. This approach led to policy inconsistencies as their own relationship with the state became adversarial. Evasion and non-compliance became costly to monitor while the class-based structure limited the development of reciprocal obligations to comply. Self-interest and paternalism undermined the connection between citizenship and taxation. The absence of strong fiscal protest during the twentieth century (in contrast to protests for increased social spending) is a good indicator of this trend.

Paternalism in the market and individual rights as a citizen are not necessarily antagonistic. The US exhibits a remarkable trajectory toward mass income taxation triggered by WWII together with the consolidation of industrial paternalism in the first half of the twentieth century (Swenson, 2002; Thorndike, 2009). Alternatively, undermining paternalism in the labor market can reduce labor costs, improve competition, and deal with growing social pressure (Swenson, 2002). Sweden's income tax in the early twentieth century became a mass tax as it explicitly connected taxation to expenditures driven by concerns of dwindling rural incomes. Farmers' parties successfully helped to tie pensions to centralized mass income taxation, allowing for the expansion of the welfare state in the future (Baldwin, 1999; Edebalk and Olsson, 2010). As Peres-Cajías *et al.* (2022) argue, domestic taxation helped natural-abundant Norway and Sweden to shield revenue from changing commodity prices. In contrast, Latin American taxes on natural resources deepened their dependency on international markets (Biehl and Labarca, 2018).

The absence of a mass income tax does not necessarily indicate weak state capacities. Chile's VAT showcased novel administrative capabilities, inspiring trust and motivating compliance as the public believed in both the tax agency's competence and fellow citizens' honesty (Bergman, 2009). Unlike the PIT, the VAT's broader reach minimized collective action problems. Thus, mid-twentieth-century Chile emerged as a regional success story with the state regulating the economy efficiently and without significant opposition, as long as elite interests remained unthreatened and allowed them to appear dutiful taxpayers (Ondetti, 2021). A broader sense of reciprocal obligations failed to materialize.

In addition to elites' influence, the enduring presence of natural resources in public debates frames paternalistic obligations and the class-based nature of the PIT. This confirms Chile's distinct path to modern statehood. We are reminded of Mamalakis' observation that since independence, Chile "has been plagued ... by an aversion of its citizens to pay any taxes but especially direct ones" (Mamalakis, 1987, p. 107). While wealthy taxpayers were "willing to provide the resources needed" for "the truly needy," they "balk at tax payments when such services are provided to middle- and upper-class-income groups who have the capacity to pay" (*ibid.*, 108). The PIT evolution helped to curtail the idea that equal sacrifice through taxation is a requisite for citizenship.

In this light, focusing on the class nature of the PIT allows us to better understand connections between state action, taxation, and state-society relations. In the nineteenth and first decades of the twentieth century economic and political elites resisted domestic taxation in the name of "the people" (DSCD, 1884a, p. 51, 1884c, p. 111) "already too heavily taxed" (DSCD, 1884b, pp. 100–101). In that context, "the people" referred only

to a small elite, but the rhetorical strategy was instrumental for avoiding direct taxation and targeting cheaper revenue sources. When the PIT was finally introduced, its advocates over the twentieth century promoted it as a tool to tax the wealthy under extraordinary external circumstances. The debate presented an impossible puzzle on how to protect the many from paying taxes while, at the same time, funding social and developmental policies for a growing urban population. Social policy beneficiaries could hardly see themselves as entitled citizens participating in the democratic definition of fiscal policy.

The trajectory of the Chilean PIT improves our understanding of Latin American limited income taxation. From the beginning of the twentieth century, political and economic inclusion became the main challenge for Latin American societies (Oxhorn, 1998). The Chilean PIT articulated elites' special relation with the state, enhancing paternalism. The narrative of protecting the poor needed an antagonist to drum up political support. Throughout the century, public discourses targeted foreign owners of nitrate mines, the oligarchy, and foreign owners of copper mines. The perception that natural resources and income-tax paying elites funded the state reinforced a form of legitimacy around the paternalistic idea of inclusion through social benefits. Counterintuitively, exclusion from the PIT might come at the price of furthering exclusion from fiscal politics and result in a regressive tax system. The Chilean case suggests that class-based taxation allowed a fiscal system to remain regressive in practice but progressive on paper.

8. Conclusion

In this article, we examined Chile's class-based PIT. As elites defended its class nature, where only the wealthy were subject to assessment and payment, we followed their arguments regarding their cultural shared assumptions and Chile's structural constraints. Culturally, elites understood taxation paternalistically: the non-rich were excluded for their benefit. Structurally, this was possible thanks to the taxation of foreign-owned mining companies and their exports.

To better gauge the consequences of these debates, we reconstructed PIT rates and the number of taxpayers, and discussed levels of tax evasion and non-compliance. Tax evasion became endemic, suggesting an adversarial relationship between elites and the state. To explain this apparent paradox, we delved into how elites themselves understood their duties to the rest of society or what we termed fiscal paternalism. Paternalism is characterized by a particular conception of duties (Goodell, 1985). Elites saw it as their duty to levy taxes on the rich, and that non-elites should be exempted from taxation. The absence of equal visible sacrifice allowed elites to gain leverage over taxation issues and provide an incentive to evade payment. Due to costly auditing and lower tax morale, a class-based tax may enhance free-riding.

In this respect, political elites exempted workers and the poor from paying the progressive PIT, stressing that the obligation to pay rested "only on those who can." Domestic tax reform was seldom connected explicitly to welfare and development aims. When the connection was explicit, such as in the 1960s and 2010s, wage earners were protected through tax exemptions, while most of the discussion centered on the progressivity of the top rates and the taxation of mining rents. In contrast, economic and fiscal crises were the primary trigger for domestic reform.

By keeping the PIT class-based, nominally to protect workers, we suggest that fiscal citizenship was absent from fiscal debates. Instead of promoting citizenship through the relative equal sacrifice and extension of rights—present in most Western contexts—the fiscal obligations of the masses remained hidden and state functions became legitimized through social programs and spending. Even today, voters hardly identify themselves as

taxpayers and fiscal protest is unusual while the state levies most of its revenue from more regressive but less visible instruments such as the VAT.

A critical missing link in scholarship on the relation between states and economic elites in Latin America is how both states and elites conceptualize their social obligations. Some taxes are accepted as part of a wider social compromise where elites define their obligations to fellow citizens. Zooming into Chilean fiscal history, we explored how most citizens were exempted from income taxation but burdened—in the long run—through indirect taxes, because a mix of fiscal paternalism and fluctuating mining revenue. If one begins with the assumption of greedy and self-serving elites, mass taxation would make perfect sense as it dilutes fiscal obligations and places state revenue on a firm domestic footing. At the same time, mass VATs became an even more appealing alternative as it entailed less bargaining, posing fewer risks to elite leverage over taxation. Chilean elites understood their privileged social position in paternalistic terms, ultimately calling for class-based taxation and top-down redistribution.

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