The political economy of justice

The second theorem of welfare economics posits that any desired income distribution can be achieved when an economy is at full potential by taxing those who earn more than society wishes and transferring these to those who earn less. I have previously argued that universal basic income proposals essentially genuflect to this theorem. In this column, I address the political economy underlying the transfers recently proposed by the national political parties.

The political economy argument for transfers rests on the case for justice. John Rawls distinguishes between "justice as fairness" and "distributive justice". The first requires that economic arrangements are consistent with equal liberties and equality of opportunity. In a growing market economy, the more inclusive the growth process — the more people participate in, and derive benefits from participating in delivering economic growth — the more "justice as fairness" is secured.

RATHIN ROY

"Distributive justice" is about correcting for inherited advantages that some may enjoy. Thus, different intellectual or physical capabilities, and differing inheritances of all types of capital can result in unequal distributions of the gains from different investments designed to foster capabilities. This needs to be corrected. This is what motivates affirmative action, Piketty's argument for asset and wealth taxation, and the case for a universal basic income.

Rawls argues that the first principle takes priority over the second. If the first is not secured then the task of dealing with the second is only compounded. Growth without inclusion exacerbates the advantages endowed by unequal access to capital and to inheritance.

Interestingly, Rawls expresses this in public finance terms. Following Musgrave, he specifies four branches of public finance, each intimately concerned with delivering justice in different dimensions.

The allocation branch seeks to intervene so that the price system does not militate against the delivery of justice. Relative prices regulate both incomes and affordability, and these must be consistent with securing both types of justice.

The stabilisation branch ensures that macroeconomic conditions secure "justice as fairness" and do not exacerbate distributive injustice.

The transfer branch secures a minimum level of income and/or universal access to public and merit goods that would not be secured by relying solely on the market mechanism, thus securing "justice as fairness."

The distribution branch is concerned with securing justice in distributive shares.

The motivation behind the desire to maximise growth is simply to increase the economic commonwealth such that the size of the economic pie is not a barrier to "justice as fairness". Recognising that the market will not secure such justice even if the pie grows, a just government uses the public finances such that the allocation of resources, the affordability of goods that all consume, and overall macroeconomic management increase "justice as fairness". Since the development of human capabilities is a collective endeavour, the State uses public finances to provide public and merit goods like health and education. This secures inclusive growth and, therefore, "justice as fairness". Taxes on assets, occupations, and wealth are used to finance transfers secure "distributive justice" by alleviating the unfair advantages that unequal capital and intellectual endowments bring to some.

Let us look at the recent debate on transfers proposed by both national parties using this lens. Farmers face injustice due to a variety of causes that do not permit them to earn a stable and adequate income from their occupations, even while there has been a quantum expansion in agriculture output. Clearly, there has been a failure to deliver "justice as fairness" in the agriculture space. Income transfers to compensate for the lack of "justice as fairness" will not solve the problem. Interventions like the elimination of middlemen, land reforms and equal access to agricultural services are important to secure both types of justice. Income transfers can play a positive role if, and only if, these allocative interventions work.

The problem of poverty has been addressed in a substantial manner, though not fully, in the course of India's development transformation. However, the contemporary recognition that the Indian population vulnerable to falling into poverty is a multiple of those actually in that condition points clearly to a failure to deliver justice as fairness. There can be no dispute that this is the case when the leading indicators of the Indian economy are about things consumed by the top 10 per cent. Income transfers to the excluded poor can only compensate for the lack of "justice as fairness" in the growth process, not address it.

In both cases, an instrument appropriate to secure "distributive justice" is being used to compensate for the failure to deliver "justice as fairness." This is the crux of my concern about these proposals, not their practicability or affordability which, though important, are procedural matters.

I would not be as concerned if the eminence and quantum of attention given to the design of these transfers were accompanied by attention as to why, after 30-plus years of high growth, India, now a giant economy, is unable to deliver "justice as fairness" through productive inclusion. The fact that the only political response is to compensate those who bear the brunt of this failure is, in my view, an abdication of political responsibility.

The writer is director, National Institute of Public Finance and Policy. Views are personal