

## **Role of Fiscal Policy in Distributive Justice**

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### **I. Introduction:**

There are many vital aspects of distributive justice which need focused attention, such as health, education, food and gender. This paper an attempt has been made to deal with select aspects of financial policies, which impinge on distributive justice. The focus is on fiscal policy and some recent regulatory initiatives, which impinge on the smooth working of the financial sector.

“Social justice” is designed to undo the injustice of unequal birth and opportunity, to make it possible that wealth should be distributed as equally as possible and to provide that men shall have the material things of life should be guaranteed to each man. President Roosevelt has rightly said that “there are some where advance circumstances made them unable to obtain the aid of others. To these less fortunate men & women, aid must be given by government not as measure of charity but as serial duty”. This duty is to be performed by the serially through the state. Social justice, therefore, is dealing equitably and fairly not between individuals but between classes of society; the rich and poor.

The promotion of social justice necessitates distribution of income in favour of wage earners and against profit earners. The attainment of the goal of social justice requires more resource mobilization by taxing the richer sections. It is also felt that the adoption of labour intensive technology would help in immunizing the rate of transfer of the labour force from agriculture to industry there by stimulating the growth of agricultural out put and productivity. In so far as poverty is a problem of unemployment, attempts to make the best use of human capital and surplus labour would promote social justice and economic growth<sup>2</sup>.

The process of planned economic development during fifty years of planning has made significant strides in terms of agricultural growth and establishment of a diversified industrial structure. However despite this achievement there have been some serious lapses in the process of planning particularly in regard to the basic goals of self-reliance and eradication of poverty and unemployment. It is, therefore imperative to understand the performance of Indian economy in order to recognize the thrust areas for attainment of the goals of removal of poverty generation of employment opportunities, reduction in the

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2 Krishna, Meeta, Planned Economic Development and Social Justice in India, in Singh, S. C. (Ed), Social Justice and Human Rights in India.

disparities in the distribution of income and social justice<sup>3</sup>.

In the age of globalization much attention has been paid on the developmental concept of social justice. There are strong reasons to believe that the social and economic objectives of development are not competitive but complementary. These can mutually be supporting, thus generating a feedback very favorable for the overall development process. A positive feedback between social objectives and economic growth can be installed and led towards accelerated socio-economic progress on such a premise.

Earlier, it was common presumption that economic growth will lead towards development consequently, no attention was paid to the question to the question of distributive justice. Experiences revealed that economic growth done is not enough to lead a country towards rapid development. Therefore, the state has to formulate policies in such a manner that development benefits flow to there categories of people who need them most.

*Economic justice*, defined as the existence of opportunities for meaningful work and employment and the dispensation of fair rewards for the productive activities of individuals, will be treated here as an aspect of social justice. The customary distinction between economic justice and social justice is intellectually unsatisfactory, as it serves to legitimize the dichotomization of the economic and social spheres. This tendency can seriously limit the potential for the advancement of justice, particularly within organizations that exercise a normative function with regard to matters of development. In recent years there has been a discernable trend in international discourse towards the attenuation not only of the concept of social justice, but also of the related concepts of social development and social policy. The social sphere has in many respects been marginalized. One reason for the decline in “social” orientations is the failure to adopt a comprehensive perspective on what the concept encompasses. As asserted later, support for the idea of social justice has gradually diminished because its advocates and practitioners have neglected one of its essential dimensions, which is for individuals to have the opportunity to exercise their initiative and use their talents and to be fairly rewarded for their efforts. To acknowledge the necessity of viewing economic justice as an element of social justice is, again, to argue for a social perspective on human affairs. Economic justice is one among many interrelated dimensions of life in society. It is suggested here that the distributive and redistributive aspects of justice do not have to be separated or perceived as antagonistic.

## **II. Fiscal Policy and Distributive justice:**

Redistribution of income is essentially a fiscal function and, as such, the stance of fiscal policy determines the degree of success in achieving distributive

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3 Ibid.

justice. Over the years, the Indian fisc has endeavored to be an effective instrument for uplifting the weakest segments of society. While acknowledging that the fisc has successfully undertaken various programmes of poverty alleviation, the fisc is faced with perennial conflicts. How should scarce resources for health services be allocated between primary health centres and high-tech hospitals? In the area of education, how much should be allocated to primary education and how much to the elitist IIMs and IITs? How much should be spent on national highways, airports and giant power plants, and how much on small feeder roads in the remote areas and other social services in the hinterland? These are on-going questions which will need continuing attention and there are no easy answers<sup>4</sup>.

The fisc faces the basic economic dilemma as to how to allocate scarce means among alternative uses. The pressure on the fisc is acute and this inevitably ends in the emergence of a fiscal deficit. What is unfortunate is that the fiscal deficit is attributed to subsidies for the weaker sections, and various programmes for alleviating poverty are erroneously deemed to be inefficient. When the fisc spins out of control and fiscal consolidation becomes necessary, invariably it is the weakest segments which bear the burden of adjustment while the stronger segments are well equipped to defend their turf. Thus, it is not sufficient to focus on the aggregate of fiscal consolidation but how it is achieved. To the credit of the present government, it has been undertaking a number of initiatives to effectively reach out to the weakest segments of society<sup>5</sup>.

From the late 1950s to the early 1980s redistribution of income was attempted by imposing punitive direct taxes on the upper income groups. It was recognised that such high rates of taxation stunted productive activity and encouraged tax evasion. From the 1980s till the present time, there has been an excessive dilution of the direct tax regime. The prohibitive income tax rates have been reduced to such low levels that India has become a virtual tax haven. Estate duty has been abolished and wealth tax, gift tax and capital gains tax have been diluted to the point where these taxes are as good as abolished<sup>6</sup>.

As regards deduction from income and exemptions from income tax, these exemptions have been withdrawn from the relatively lower income groups while massive benefits have been provided by exempting from income tax, dividends from companies and mutual funds. These deductions/exemptions are so deeply entrenched that no government, irrespective of its hue, is able to bring about a modicum of balance in the direct tax regime<sup>7</sup>.

It is argued that direct taxes are borne by a minuscule of the population and that the bulk of the population is free from taxation. This is erroneous. The

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4 Tarapore, S. S, Fiscal Policy Must be Consistent with Distributive Justice. Source: [www.inclusion.in/index.php?option=com-](http://www.inclusion.in/index.php?option=com-)

5 Ibid.

6 Ibid.

7 Ibid.

bulk of the population bears a very heavy burden by way of indirect taxes, which are known to be regressive. While not going back to the earlier confiscatory direct tax regime, there is merit in a golden mean under which the direct tax regime can be increased gradually while the harshness of the indirect tax regime is eased. This would be a salutary measure towards reducing the iniquity of the present tax regime<sup>8</sup>.

### **III. Need to Control Inflation:**

Furthermore, it is argued that the inflation currently experienced in India is supply side and that monetary-fiscal policies are inappropriate to tackle such inflation. It is naïve to claim that supply side inflation can be tackled only by increased supplies. It is one thing to label “onion” inflation as a supply side phenomenon but when inflation is generalised, as in the present instance, it is erroneous to call it supply side inflation<sup>9</sup>.

For many years, India prided itself on being one of the emerging market economies (EMEs) with the lowest inflation rate. In contrast, today the Indian inflation rate is one of the highest among the EMEs. India is probably the only country, which uses the Wholesale Price Index (WPI) for purposes of policy, while most countries use the more relevant Consumer Price Index (CPI). In the recent period, the WPI peaked at 10 per cent while the CPI peaked at 14 per cent. Price indices, the world over, are doctored and the actual inflation rate may have peaked at around 20 per cent. Such a high rate of inflation devastates the lowest income bracket. Furthermore, the fact that year-on-year inflation rate is coming down is a mere statistical phenomenon which is of no comfort to the common person. What is relevant to the common person is the level of prices which continues to remain high and, as such, there is no relief for the common person<sup>10</sup>.

### **IV. Inevitable Cuts in Public Spending:**

The major reason for the burgeoning public debt to the increase in government spending due to wasteful expenditure. And the impact is severe because of the mounting pressure to repay the huge public debt as government revenue does not match the ever rising liabilities. It is obvious that the government has to take more and more loans to repay the previous loans<sup>11</sup>.

In terms of the 2010-11 budget, the government will borrow approximately Rs. 2.5 lakh crore just to pay interest on the loans previously taken. This pressure of debt compels the government to enhance taxation & thereby increase

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8 Ibid.

9 Ibid.

10 Ibid.

11 The Statesman, Oct 24, 2010.

intervention in the economy<sup>12</sup>.

In India, the increasing govt. debt can have several repercussions on the economy. One major impact is that due to repayment obligations the government is constrained to spend less on important social sectors such as health, child and women's welfare. For the past several years spending on social sectors has been limited to only 8 to 9 percent of the budget. Due to inadequate expenditure on education, the govt. sector institutions could not expand in keeping with the needs of the population. Public health is another victim of insufficient public expenditure. It is poor who are the worst sufferers and the development of human resources suffers a set-back<sup>13</sup>.

#### **V. Conclusion:**

It may be said that the term social justice should be as coterminous with distributive justice. The process of achieving social justice can not be separated from the process of securing social and economic development. Thus, there is need of social transformation involving structural changes, educational development, growth in awareness and change in outlook, motivation and attitudes of the weaker sections of India.

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12 Ibid.

13 Ibid.