Linking Distributive Justice to the Polity

Prior to the emergence of the modern welfare state, it was commonly accepted that income inequality was a fact of life, and that for matters of poverty, any resolution would like largely within the confines of individual and socio-religious charity. We all are familiar with narratives from *Oliver Twist* to *Les Misérables* in which injustice arises through an imperfect market and public administration. Yet while these works of literature did touch the hearts and minds of many, it was only gradually that private philanthropy would be seen as inadequate to the achievement of a standard of distributive justice in the minds of an increasingly democratic society. Ultimately, we are interested in why private institutional arrangements to achieve a just society fall short of social expectations.

For the U.S. the idea of a welfare state derives largely from the impact of the Great Depression of the 1930s. The severity of the October 1929 stock market crash and the ensuing contraction of output in the U.S. economy put millions of individuals out of work. When Franklin D. Roosevelt took the oath of office in March 1933, the then official unemployment rate stood at 25 percent, a figure not equaled since.

Distributive Justice Programs

While private charitable organizations pursue a variety of objectives – social welfare, religious teaching, public policy – there has been no direct correlation between the activities of charities and the level of poverty or income inequality. And it has been when the economy has undergone extreme stress, as in the Great Depression, that public sector intervention has ensued. We review here some dimensions of public sector intervention and its relation to distributive justice.

Public sector intervention in an economy is designed to accomplish a number of objectives which we summarize here in the following table:

Table 3.1
Economic Functions of the Public Sector

1. Provide a legal and institutional framework for the efficient allocation of resources
2. Promote competition in support of economic efficiency
3. Foster economic stabilization and economic growth
4. Promote distributive economic justice
5. Reallocate resources to promote the efficient composition of production

Of the five, it is function number four that we are concerned with here. While others can be analyzed using standard economic tools, distributive justice, at least in a democratic society, depends on value judgments from society at large, and thus the polity.

When we look at public sector budgets, there are two ways that intervention can bear on distributive justice: on the burden of taxation across income and wealth levels, and on the expenditure side across the same income and wealth spectrum. We will concentrate first on public sector spending overall and then look at those components that bear on the distribution of income.

Because the polity in general, and in this case, the United States in particular, reflects no general or particular consensus on the optimal degree of income inequality, we focus simply on those forms of intervention that bear on the distribution of income and wealth. This leaves open the normative question of how an optimal distribution might be defined and adopted as a matter of public policy.

First, the United States historically has had a smaller degree of public sector intervention than among other countries. While this difference has been declining in recent years as other countries reduce the role of government and the U.S. has expanded its own, the U.S. still has a lower ratio of public sector spending than most other countries with which comparisons are drawn.

Table 3.2

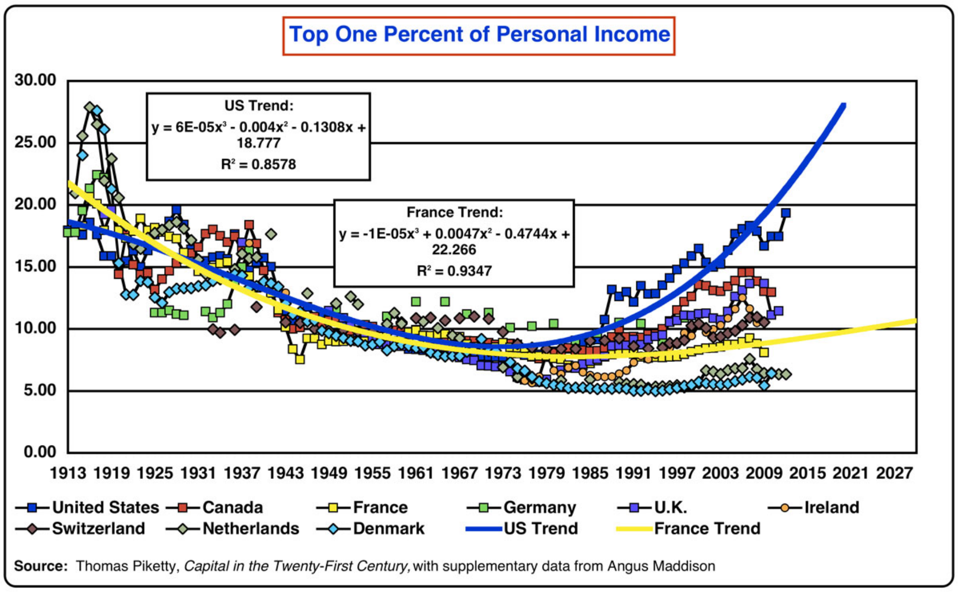
Public spending in rich countries (average 2000-2010, % GDP)

	U.S.	Germany	France	U.K.	Total OECD
Total public spending	**35.4%**	**44.1%**	**51.0%**	**42.1%**	**38.7%**
Social spending	**22.4%**	**30.6%**	**34.3%**	**26.2%**	**25.1%**
Education	4.7%	4.4%	5.2%	4.8%	4.9%
Health	7.7%	7.8%	7.1%	6.1%	5.6%
Pensions	6.0%	10.1%	12.2%	4.8%	6.5%
Income support to working age	2.7%	3.9%	4.8%	4.9%	4.4%
Other social spending	1.3%	4.4%	5.1%	5.7%	3.7%
Other public spending	**13.0%**	**13.5%**	**16.7%**	**15.9%**	**13.6%**

While the United States devotes a comparable degree of public spending on education, health, and pensions than the countries in the above OECD sample, it spends a smaller overall share on social spending in general and on income to support working age populations. These data are in keeping with the comparisons in income inequality we examined previously.

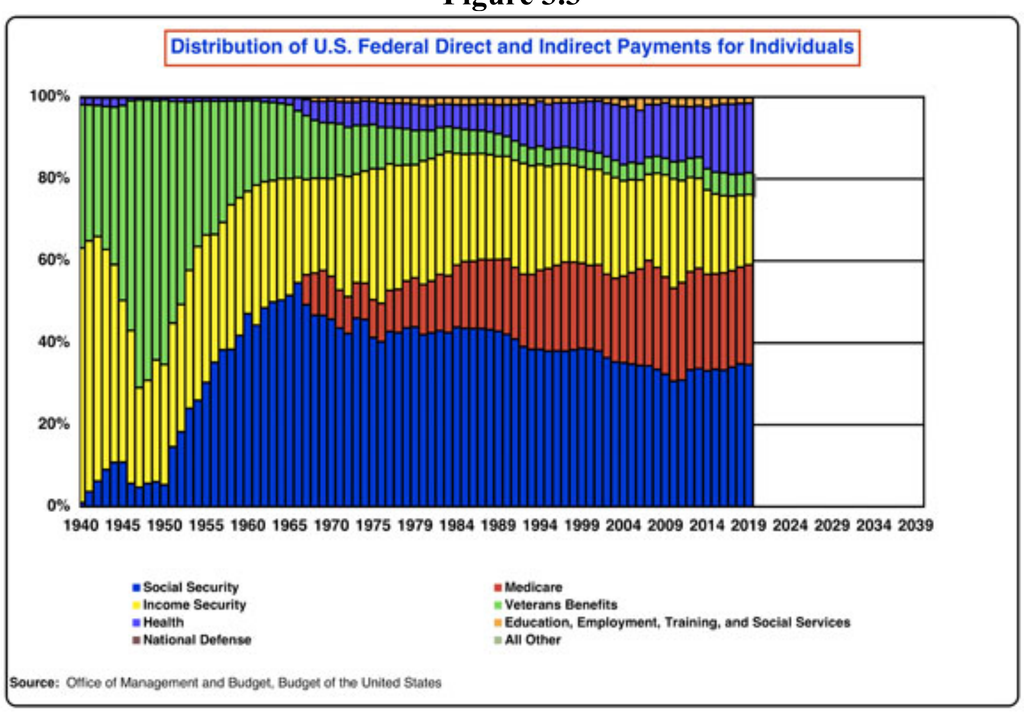
This pattern also reflects an historical legacy in which the United States has seen itself as placing primary emphasis on markets to achieve any given degree of income and income-wealth inequality. And, if we look at just the top one percent of income shares, while the United States historically did not have the highest degree of inequality, at current patterns it is in the process of exceeding the top one percent income share in European countries with which comparisons often are made.

Figure 3.1



Within the overall public sector, an inclusive measure of public intervention affecting distributive justice should encompass Federal, State, and Local taxation and spending. We do not have such a comprehensive dataset here from which to draw meaningful conclusions. As such, we will rely largely on Federal Government intervention, and it is at this level where, through the income tax, the potentially most significant changes in the distribution of income can be affected. As to wealth, it is partly through the Federal government, but also to a significant extent, state government intervention that inequality is affected, notably through estate inheritance taxation.

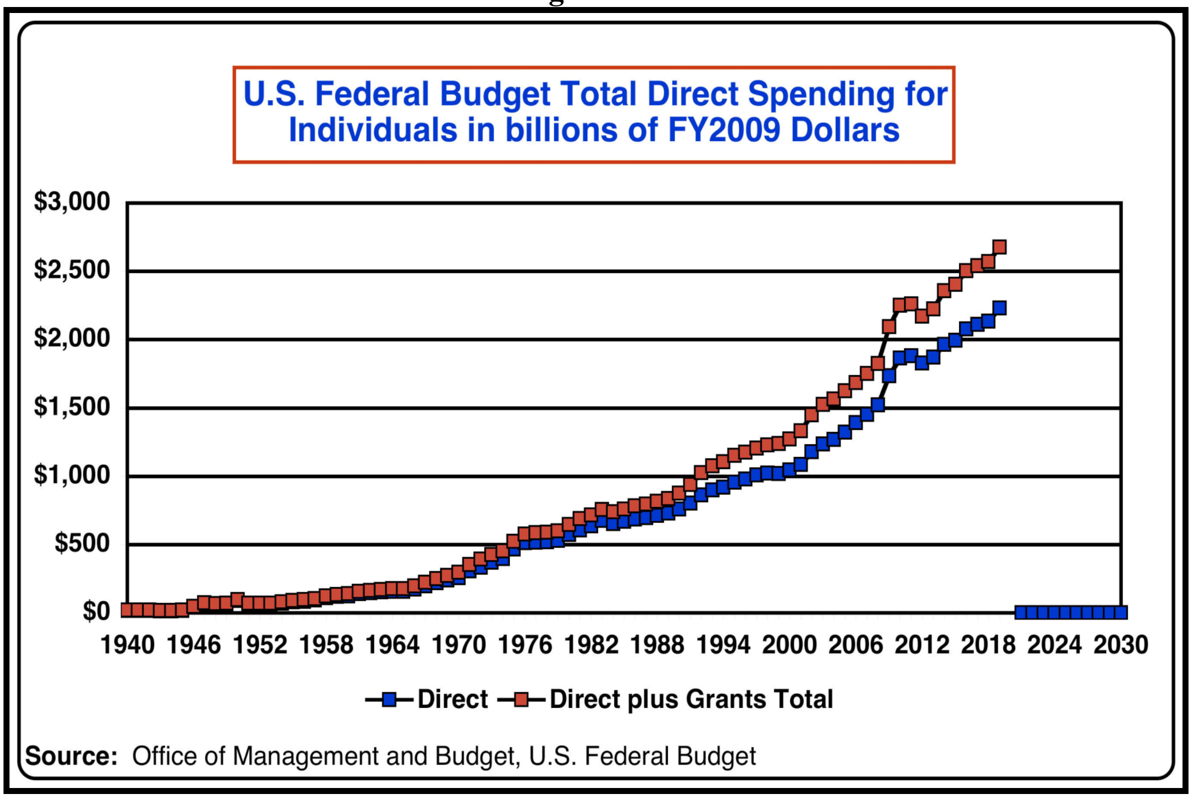
Figure 3.3



The principal Federal budget programs that have a bearing on the distribution of income are Social Security, Medicare, Medicaid, and Income Security. Since these and related programs comprise direct payments to individuals, we see that Social Security is the largest single program, followed by Medicare, and then Health. Veterans Benefits, along with Education, Employment, Training and Social Services, and National Defense (a relatively recent component related to defense contracting), represent smaller and/or declining shares of all Federal Direct and Indirect Payments for Individuals. The indirect category of payments refers to Federal Budget expenditures to States that in turn administer various programs of payments to individuals.

Overall, these Federal programs of payments for individuals now account for over $2.5 trillion dollars.

Figure 3.4



Since the U.S. Gross Domestic Product is on the order of $17 trillion dollars, a more meaningful way of looking at this relationship is in terms of the ratio of Federal Spending for Individuals as a percentage of the GDP, as well as in terms of per capita spending.

Figure 3.5

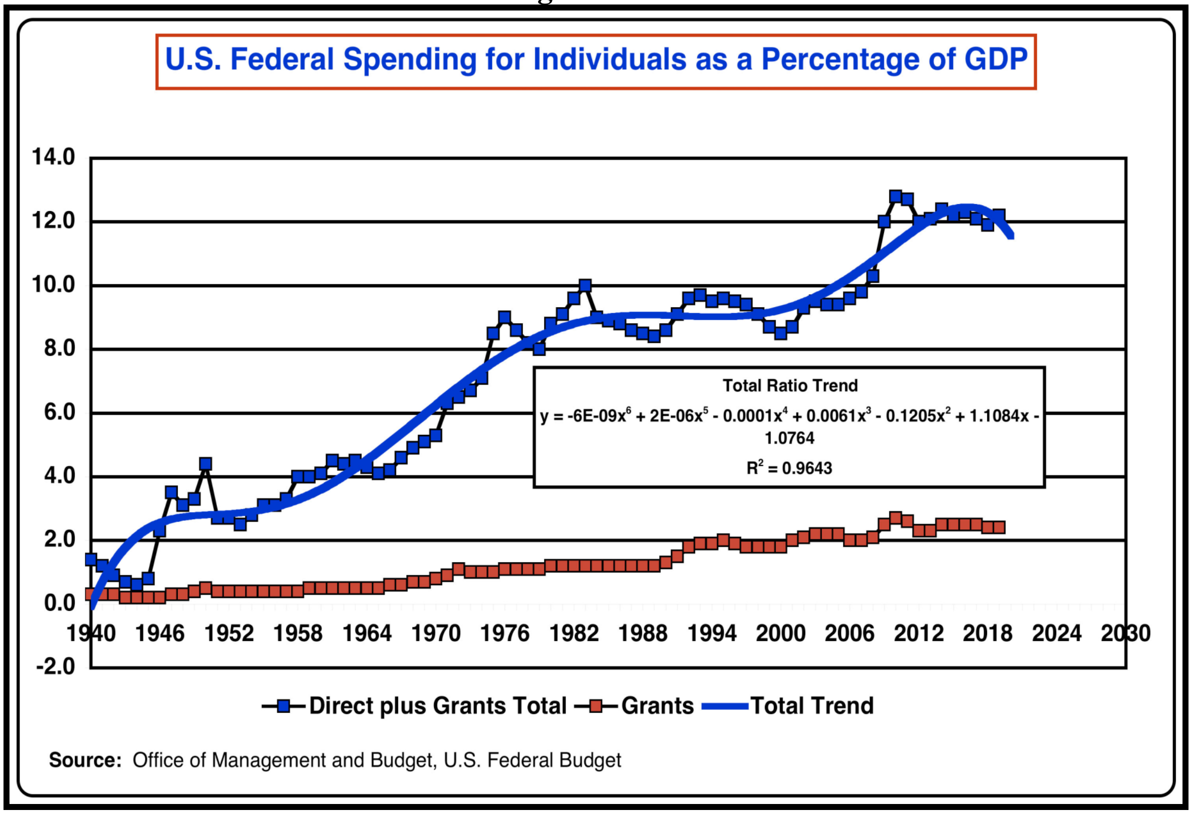


Figure 3.6

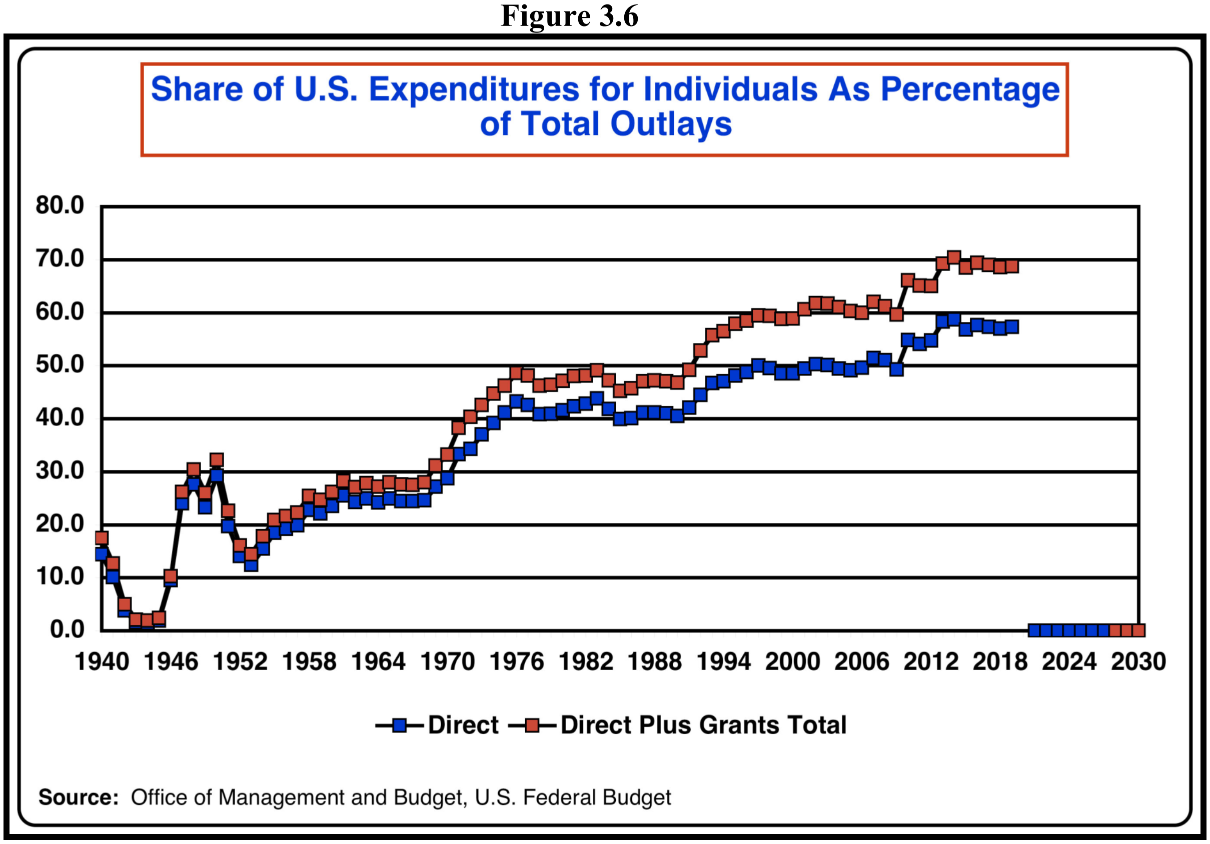


Figure 3.7

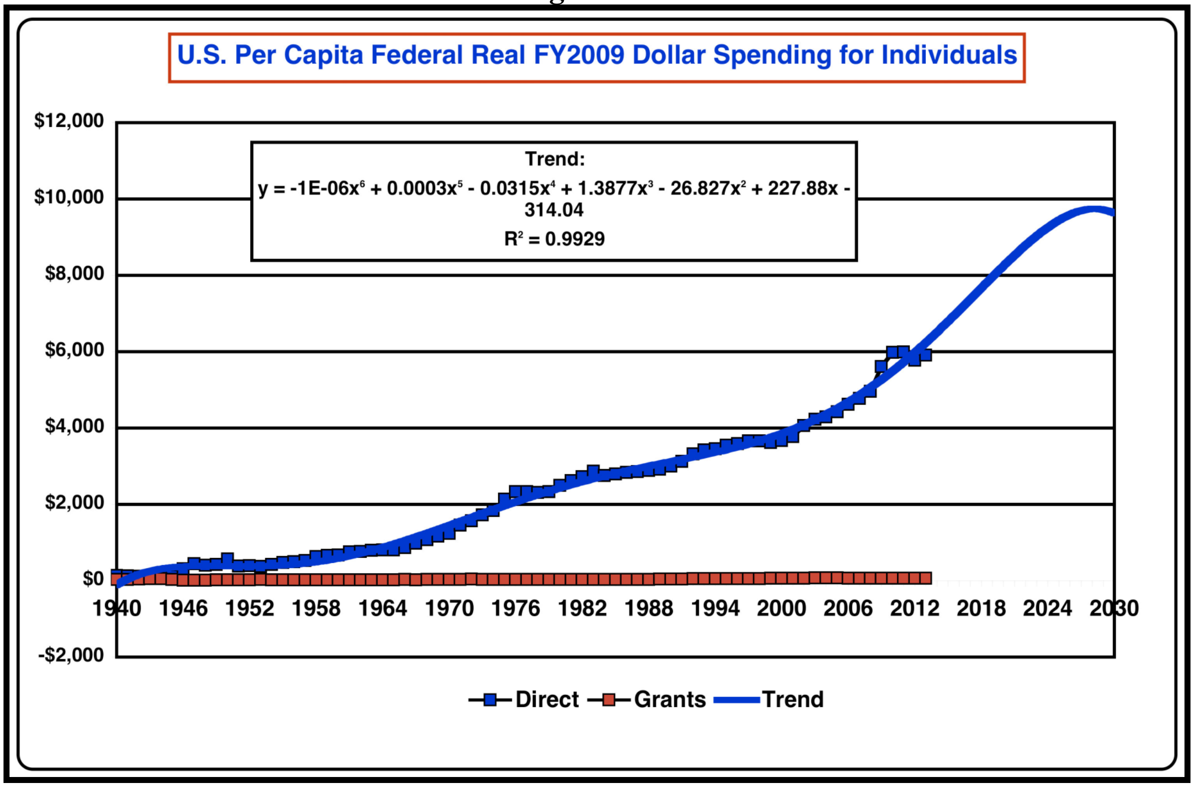
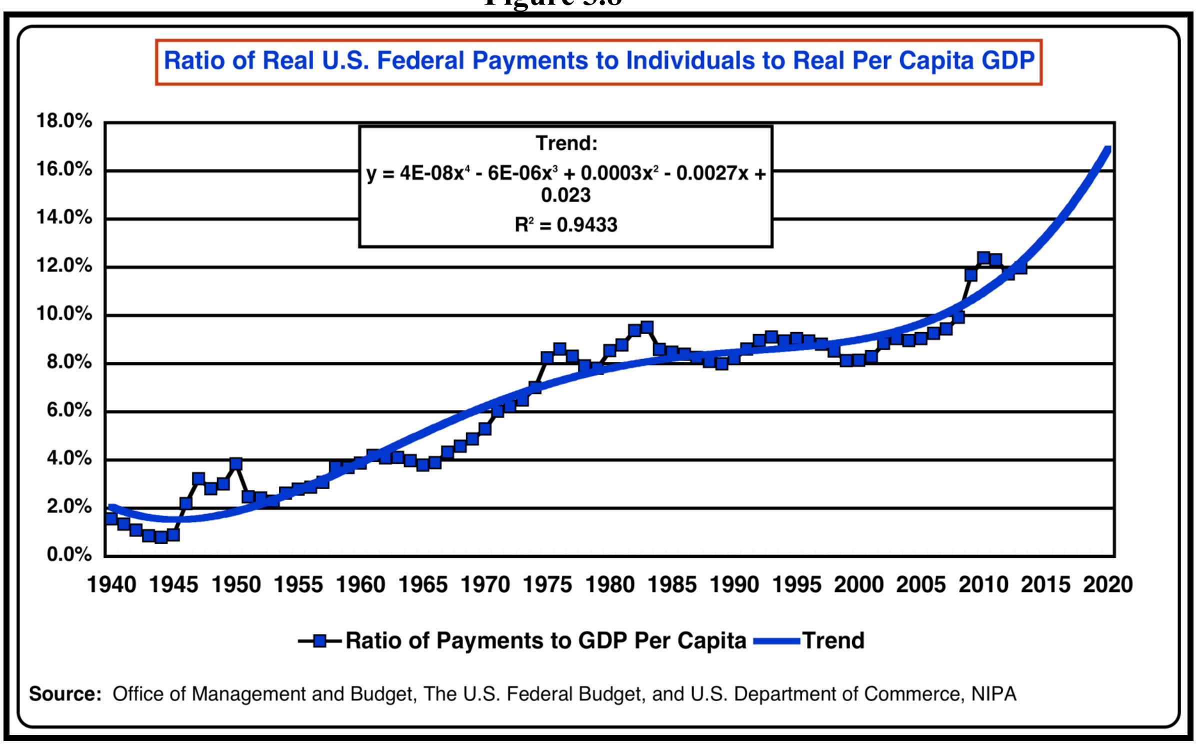


Figure 3.8



Together, what these data show are that transfer payments as a share of government spending have been increasing even as the degree of income inequality has grown. If transfer payments are rising while having at best a marginal effect on the distribution of income, it also raises the question of the relationship between transfer payments and the size of government, between transfer payments and the rate of economic growth, and between the size of government and the rate of economic growth. For the U.S. economy, this poses a policy challenge against which any normative standard of distributive justice should be judged.