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# The Spirit Underlying Some Recent Proposals for Redistributive Taxation

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*In an economy characterised by a massively skewed distribution of resources, resulting in undeserved deprivation for the very many and equally undeserved super-abundance for a very few, surely there is a case for at least a modicum of redistributive effort on the part of the State?*

## A Hypothetical (?) Wealth Distribution Scenario

Consider a (provisionally imagined) population for which the distribution of wealth (interpreted as 'net worth', or the difference between assets and liabilities) is as described in Table 1. The table shows the share in total wealth of the population under consideration, for each decile (10 per cent) of the population, arranged in ascending order of average wealth (so that Decile 1 is the least wealthy, and Decile 10 the wealthiest).

**Table 1: Decile Wealth Shares**

| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Wealth Share (%) | 3.06 | 3.46 | 3.78 | 4.19 | 4.45 | 5.96 | 7.62 | 9.30 | 16.69 | 41.51 |

Table 1 has been derived from Table 2, which provides information on each decile's average wealth holding (in units of currency that are, for the moment, left unspecified).

**Table 2: Decile Wealth Averages**

| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Average Wealth | 2.435 | 2.750 | 3.005 | 3.338 | 3.542 | 4.740 | 6.065 | 7.400 | 13.280 | 33.040 |

By just glancing at Tables 1 and 2, one can easily note that decile shares and decile average wealth move quite slowly up the ladder for the first eight deciles, and then rise discontinuously in the last two deciles. This suggests both a high degree of concentration and a certain order of 'bi-polarization', as reflected in the relative absence of a distinct 'middle wealth class'.

In fact, a measure of inequality known as the Palma Ratio (named after the economist José Gabriel Palma), can be expressed as the proportionate difference between the average wealth of the wealthiest 10 per cent of the population and the average wealth of the least wealthy 40 per cent of the population: this ratio must lie between 0% and 100%, with a higher value displaying greater inequality. As it happens, from the data presented for our hypothetical population in Table 2, it turns out that the value of the Palma Ratio is very high, at 91.3%. This figure is not far behind the Palma Ratios for the household distributions of wealth in the advanced capitalist countries of Ireland (2018) and Korea (2018), which stood at 94.4% and 95.9% respectively[1]. Further, the top 1 per cent of the population is found to account for as much as 11.6 per cent of the total wealth holding, while the top 2 per cent accounts for 20.1 per cent.

> Prescriptions of wealth and inheritance taxes are predicated on the existence of great need amongst large sections of the population, a plenitude of resources for a very small section, and therefore the availability of low-hanging fruit for just and justifiable transfers.

As one can see, the Palma Ratio focuses attention on the tails of a distribution—the top 10 per cent and the bottom 40 per cent: the middle 50 per cent, constituted by deciles 5, 6, 7, 8 and 9, is left out of the reckoning. In principle, one could have a situation in which the Palma Ratios for two distributions are the same, but the middle 50 per cent display different orders of inequality in the two distributions. There is therefore a case for measuring inequality by taking account of the entire distribution and not just its tails. The most commonly employed measure with this property is the Gini coefficient (named after the statistician Corrado Gini, who first proposed it). Computation based on the data available in Table 1 reveals that the value of the Gini coefficient for the distribution of wealth in our hypothetical population is quite high, at 47.8% (the Gini coefficient also varies from 0% cent to 100%).

Briefly, the values of the Palma Ratio and the Gini coefficient should be reasons for concern about the levels of inequality and concentration reflected by the wealth distribution data presented in Tables 1 and 2.

### Real, Not Hypothetical

These data have not been conjured up out of thin air for purposes of a short lesson in inequality measurement. They represent the actual numbers of an actual wealth distribution (to the extent that the source of the data is reliable). The general reader, alerted by recent discussions of wealth inequalities and proposals for wealth and inheritance taxes, might well take the numbers to describe the unequal status of the Indian economy as a whole. The general reader would be wrong.

The truth, as a common-or-garden variety of fact, relates to an infinitesimal—but massively weighty—fraction of the Indian economy as a whole. The wealth distribution data set out in Tables 1 and 2 have been constructed from information available in the Forbes List of India's 100 Richest in 2023. It is the 100 richest on this list that constitute the population in question, and the unit of currency employed in Table 2 is billions of US dollars. (It should be added, however, that some members of the Forbes list are non-resident Indians.)

Any sense of the unfairness of the wealth distribution represented in Tables 1 and 2, and as reflected by the values of the inequality measures based on them, should be dissipated by the knowledge that these tables do not describe the rich and the poor, but just the ultra-super-rich. The object of the tables, really, is to suggest that if this is how unequal and concentrated wealth distribution is at the needle-point tip of the pyramid, how much more grotesquely unequal must be the picture for the country as a whole, if data from such journalistic sources as the Forbes List were to be incorporated into official Indian data!

To obtain an idea of what one is speaking of, given India's 2023 population of about 1429 million and an average household size of around 4.4 persons, one might estimate that the number of households in India in 2023 is of the order of 324 million. The 100 families in the Forbes list constitute 0.000031 per cent of all households country-wide—but the wealth holding of this miniscule fraction of the Indian population is a massive 795.95 billion USD. According to the data portal *Statista*, India's 2023 Gross Domestic Product (GDP) is of the order of 3,572 billion USD. A 4.5 per cent wealth tax on the wealth of these richest Indians would yield 1 per cent of GDP—a significant quantity, considering that public spending on health as a share of GDP is barely above 2 per cent.

### The Spirit Underlying Redistributive Taxation

The ethic of 'sufficientarianism', due to the American philosopher Harry Frankfurt, can be crudely summarized as allowing for a toleration of/indifference to inequality when need in a society, assessed in some reasonable fashion, has been eliminated because all segments of the population have a sufficiency of the resources required to meet that need. Whether or not this is a compelling doctrine of distributive justice, it is at least straightforward that universal 'sufficiency' is very far from being a description of conditions as they presently obtain in this country.

> …[I]f influential voices were to add to, rather than detract from, demands for modest redistributive taxation which could make a difference to the availability of funds for social sector spending, then one could hope for an overall climate in which politicians would find it harder rather than easier to resist these demands.

Prescriptions of wealth and inheritance taxes are predicated on the existence of great need amongst large sections of the population, a plenitude of resources for a very small section, and therefore the availability of low-hanging fruit for just and justifiable transfers. These prescriptions, in the broadest sense, are a metaphor for the urgency of redistributive measures, rather than confident assertions of blue-printed schemes of taxation designed and guaranteed to stymie either resistance or avoidance/evasion by the very rich.

It is therefore disappointing when professional economists of a certain persuasion are quick to rubbish these proposals on grounds of impracticality and failure elsewhere, and prescribe, as alternatives, measures aimed against industrial concentration or in favour of growth and jobs. It is not clear that anti-trust law, where it has been pursued, has been a resounding success; nor that growth and jobs are an alternative, rather than complementarities, to redistributive taxation. And after all, it is worth recalling that this country has witnessed something a good deal more radical than imposition of a wealth tax on the ultra-rich, namely the nationalization of a hefty chunk of the private banking sector.

Seen in this spirit, if influential voices were to add to, rather than detract from, demands for modest redistributive taxation which could make a difference to the availability of funds for social sector spending, then one could hope for an overall climate in which politicians would find it harder rather than easier to resist these demands. Everything begins with a broad idea for change, and seldom with definitive and fool-proof guarantees of success. The case then is for a sympathetic rather than impatiently dismissive interpretation of the spirit underlying various recent proposals for redistributive taxation in India. It is the easiest of things to ignore the odd, isolated voice; but it is an altogether different proposition when what one has to deal with is a chorus.

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**Footnotes:**

**1** Calculations based on data available in Table 1-5 of the Credit Suisse Research Institute's Global Wealth Databook 2022.