



RQ: To what extent is the impact of economic policies on social justice influenced by the level of development in a country?

Amaara Dalmia

Student

The British School

Abstract

Economic policies are developed and implemented by governments to shape the economy of their respective countries. That being said, economic policies can have a direct and significant influence on social justice - fairness in relations between individuals and society - as well. This research paper conducts an in-depth analysis of Germany and India to understand if the impact of economic policies on social justice is influenced by the level of development in a country. The analysis is conducted across three main realms, namely; income inequality, access to education and healthcare, and gender inequality.

Key Words: Social Justice, Economic Policies, India, Germany, Taxation, Minimum Wage, Education, Healthcare, Gender Equality

Introduction

Economic policies refer to a course of action that is intended to influence or control the behavior of the economy (CliffsNotes, 2015). In simpler terms, economic policies are rules that are usually set by the government to help manage the resources of a country, such as taxation and subsidies. Social justice refers to a political and philosophical theory that focuses on the concept of fairness in relations between individuals in society (CFI team, 2022). In essence, it means that every person in a society has equal rights, opportunities, and respect no matter their race, economic background, gender, sexuality, etc.

The government's decisions regarding economic policies can strongly impact social justice in society. Income distribution, for example, refers to the way the wealth and income of a nation are divided amongst its population (Britannica, 2024). Ideally, income distribution should be equal amongst everyone, which means that all people in a society make the same amount of money. However, this is not the case in most societies, since income distribution is unequal - some individuals earn and have more money than others. In light of the same, income distribution and equality largely depend on economic policies such as regressive or progressive taxation. Another good example is policies such as India's Equal Remuneration Act (1976), which aims to decrease the pay gap between men and women, and helps bring about social justice in the form of gender equality.

While discussing this, it is important to keep in mind that economic policies have different levels of impact on social justice in different countries. This could be because of the difference in levels of development of different countries. A developed nation is a country with high industrial and economic development, and ultimately, a high quality of life (Hausman, 2022). Developing countries have a less developed economy and lower quality of life for the general population than developed countries do, and finally, underdeveloped countries have low economic development, and low quality of life (Hausman, 2022). Thus, this research paper aims to answer the question "To what extent is the impact of economic policies on social justice influenced by the level of development in a country?"



This research paper aims to further delve into this question by looking at case studies from around the world, more specifically India and Germany.

Income Inequality

Income inequality is a pervasive issue that impacts nations with varying rates of economic growth. The economic policies of Germany and India can be compared to better comprehend the intricate relationship between economic policies and the persistent issue of wealth disparity. Mostly, it's important to focus on aspects such as minimum wage laws and tax laws to better understand the disparity when it comes to these two nations.

Tax systems are an important way to notice the difference between the two nations. A progressive tax involves a tax rate that increases (or progresses) as taxable income increases - it imposes a lower tax rate on low-income earners and a higher tax rate on those with a higher income (Kagan, 2023). A regressive tax system levies the same percentage on products or goods purchased regardless of the buyer's income and is thought to be disproportionately burdensome on low-income earners (Horton, 2019). In essence, a progressive tax aims to benefit the economically weaker sections of society, as it helps in wealth redistribution, while a regressive tax employs the same amount of tax on all sections of society which makes it difficult for the economically disadvantaged. Both Germany and India employ a progressive tax system but implement it in different ways. Tax redistribution helps in raising the standards of living for those in poverty, and is usually an aim of progressive taxes.

The tax structure in India is divided into two - direct and indirect tax. An example of a direct tax would be income tax, which is paid directly to the government or IRS, while an indirect tax, for example, would be the GST which is levied on all goods and services, and is not paid directly to the government by the consumer. An indirect tax is usually regressive in nature, as it does not take into account the income of the consumer. There have been concerns raised about the neglectfulness of India's tax collection system, specifically loopholes that allow tax evasion. GST (which is an indirect tax) audits by the indirect tax body during the fiscal year of 2022-2023 led to the detection of Rs 22,000 crore tax evasion from nearly 48,000 cases so far (Das, 2023).

However, direct tax evasion is a bigger problem in India. Reasons such as a rigid concept of income and exclusion of agricultural incomes from central income tax collection all help the wealthy find loopholes to evade taxes (Jain, 1987).

In Germany, the main taxes are income tax and social security contributions as well as solidarity tax, VAT, and church tax (Expatrio, 2024a). Germany has a more hands-on approach to financial crimes. More recently for example Germany passed two Sanctions Enforcement Acts, or SDG, in response to the invasion of Ukraine (Kirwitzke and Jahn, 2023). These legislations include improved asset tracking and freezing capabilities, as well as significant advancements in the prevention of money laundering and the practical application of penalties (Kirwitzke and Jahn, 2023). One of the first actions resulting from the SDG Acts was the creation of the Central Sanctions Enforcement Office, which is in charge of carrying out sanctions at the federal level (Kirwitzke and Jahn, 2023). To create a central body to combat financial crime, authorities simultaneously launched the Design and Establishment of a Higher Federal body for Combating Financial Crime (BBF Project) in December 2022 (Kirwitzke and Jahn, 2023). Enhanced enforcement measures, including audits and investigations, help in the detection and prosecution of financial criminals in Germany. This makes tax redistribution in Germany more secure, and fairer.

Minimum wages have been defined as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by a collective agreement or an individual contract (International Labour Organization, 2019). Both Germany and India employ minimum wage as well, however, India has a different minimum wage through all its states, while Germany has a national minimum wage.

India has a decentralized minimum wage system, which means that minimum wage rates are established by individual states and union territories and are subject to change at any moment. While this seems more effective as each region has different amounts of skilled and unskilled labor, the poor implementation of these laws across the nation makes these laws ineffective. India's financial literacy has been subject to scrutiny for a long time, which means there is a heavy lack of awareness among workers about minimum wage provisions (Gupta, 2023). The minimum salaries set by a few states are insufficient to cover basic requirements including shelter, food, and education, barely allowing the freedom to eat two meals a day. During times of rising costs, the worth of salaries has been diminishing.

Germany, on the other hand, introduced a national minimum wage in 2015 (Bruttel, 2019). The purpose of instituting a national minimum wage was to set a standard of pay so that all workers, regardless of where they work or what sector they work in, are fairly compensated for their labor. In October 2022, the minimum wage in Germany increased by nearly 15%, benefiting over 6 million people and increasing both standards of living and

purchasing power by €4.8 billion (DGB, 2022).

Based on the different approaches to tax collection and prevention of tax evasion as well as the difference in implementation of minimum wage in both countries, Germany's economic policies lead to a more equitable distribution of income and a better standard of living for most citizens.

Access to Education and Healthcare

Education and healthcare policies impact the standards of living in all countries. Whether it be the Right to Education Act (2009) in India or the mandatory Health Insurance in Germany, economic policies that impact education and healthcare are arguably the most important for the citizens of the area, as they directly influence the lives of people. Government spending refers to money spent by the public sector on the acquisition of goods and provision of services such as education, healthcare, social protection, and defense (CFI Team, 2023). In essence, this refers to how the government spends money that directly impacts the standards of living in an area.

With regard to education, India spends around 2.9%, and that percentage has remained constant for around four years (Sahay, 2023). The Indian Government has made consistent efforts to increase awareness for education in the country, arguably their most famous campaign being “Beti Bachao, Beti Padhao” which aims to attack the low efficiency of the education system for girls in India. It initially launched with a funding of around 13 million dollars, and targets northern states such as Punjab, Haryana, and Delhi. Another example of policies that are meant

to increase literacy levels in India is the Sarva Shiksha Abhiyan, or the SSA, a flagship program for trying to make free and compulsory education for children aged 6-14 years, which is a fundamental right (District Shahdara Delhi, 2001). India declared this in the Right to Education Act which was legitimised in 2009 (Ministry of Education, 2019). However, regardless of these initiatives, in rural areas, the government has and continues to struggle to increase the literacy rate, which is only around 78% throughout India (Singh, 2022). Rural areas face multiple problems in regard to education, such as lack of infrastructure, underqualified staff, and poverty (Mehta, 2023).

In Germany, on the other hand, 99% of the population is literate (Country Reports, 2024). The government spends around 10% of its GDP (as of 2021) on the education sector, a stark increase from India's 2.9%. Germany does not charge its population for education - the country provides free education at all levels (Agrawal 2024), from elementary school to college, and intergovernmental projects such as the Bologna Process, whose purpose is to enhance the quality and recognition of European higher education systems and to improve the conditions for exchange and collaboration within Europe, as well as internationally (eua, 2024). Germany's education system is thus much fairer than India's, providing free education and leading to one of the highest literacy rates in the world.

When it comes to healthcare policy, India spends only 2.2% of its GDP on health expenditure as of the financial year of 2022 (LiveMint, 2023). There are certain policies that aim to better the state of healthcare in India, such as the National Health Mission which was launched in 2005 by the Indian government. It aims to achieve universal access to equitable, affordable & quality healthcare services that are accountable and responsive to people's needs and target maternal health. Since 2018, Delhi's private hospitals that ran on subsidized Government land have been required to provide free treatment to those from economically weaker sections (Times of India, 2018). However, there is a significant difference between urban and rural locations in terms of healthcare service accessibility and quality.

In contrast to this, Germany's government spends around 13% of its GDP on the healthcare sector as of 2021 (The World Bank, 2019). Health insurance is mandatory by law for all residents and visitors in Germany, whether that's statutory public healthcare, private healthcare, or some other valid form for short-term visitors (Expatrio, 2024b). This constitutes a mixed system of public and private provider delivery which holds out a wide choice for citizens and competition amongst providers that can lead to a better quality of service, which provides choice for citizens.

Germany's healthcare system is more organized and capable than India's, showing once again how the standards of living are very different in the two nations.

Gender Inequality

Gender inequality is an issue that has remained prevalent since the beginning of humanity, and is heavily impacted by economic policies. It refers to discrimination on the basis of sex or gender causing one sex or gender to be routinely privileged or prioritised over another. Whether it be factors such as parental leave policies, equal pay initiatives, and access to economic opportunities, economic policies serve as powerful forces in shaping and changing gender norms, opportunities, and outcomes. This section of the research paper explores how economic policies contribute to or mitigate gender inequality in India and Germany.

With regard to access to economic opportunities, the gender gaps in both the labor market and entrepreneurship in India have remained high. Despite the government taking the initiative and introducing some policies, estimates suggest that India's rate of female participation in the formal labor force is only 30 percent - among the lowest across developing nations. The fundamental reason for this is the unequal access to resources, both tangible and intangible, that the structural reforms and transformations of the country have failed to rectify (Ghani et al., 2016). The discrimination against women in the labor market and in entrepreneurship deeply hurts the respective country as well as the global economy. For instance, McKinsey Global Institute published a report suggesting that the advancement of women's equality could add as much as

\$12 trillion to global growth by 2025. In the context of a country like India, if the full potential of women is harnessed and they are provided with the necessary resources then it could significantly boost economic development. In line with this, the World Bank estimates that if even 50% of women could join the workforce, India's economic growth would increase by a considerable 1.5 percentage points to 9% annually (Hindustan Times, 2023). It is worth highlighting that the gender pay gap in the country is also of concern as women-owned enterprises seem to be concentrated in low-paying industries with statistics suggesting a strong negative relationship between average industry wages and the share of female-led plants in both the service and manufacturing industries.

When it comes to Germany, the government has implemented certain policies to target gender discrimination in access to economic opportunities. For instance, The Act on Equal Participation of Women and Men in Leadership came into force in 2015. In 2021, a second law to increase the number of women in leadership positions in private and public sector companies in Germany entered into force (The Library of Congress, 2021). However, the pressing issue in Germany is with regard to the gender pay gap. As per a survey conducted by HeyJobs, women, who make up 44% of the participants, reportedly earn an average monthly salary of 2,329 euros for full-time work. On the other hand, women, representing 53% of the respondents, earn an average of 2,820 euros monthly for full-time work (Steele, 2023). The primary reason for this gap is gender bias which persists in the country and contributes to occupational segregation whereby women are more likely to be employed in low-paying jobs.

Discussing the policies centered around leave for parents, it is first vital to highlight that India and Germany have staggeringly different birth rates, where India has 16.4 births per 1000 people, and Germany has 9.6 births per 100 people (The World Bank, 2021). However, both countries do offer paid maternity leave, but they do so on different levels of competence. India has made major strides in maternity leave policies, and companies are legally permitted to give new mothers 6 months of maternity leave. These rights are protected by the Maternity Benefit Act that was established in 1961, which also states that women are granted this privilege only for their first two children, and 12 weeks for subsequent births. The act also states that women cannot work six weeks after miscarrying. However, as India progresses in protecting the rights of mothers, there needs to be more substantial paternal leave policies. There is no mandatory paternity leave for those in the private sector, and government employees only receive 15 days of paternity leave (Seberos, 2023). This reinforces stereotypes and does not help alleviate stress for new mothers.

Germany, on the other hand, provides almost equal care for both mothers and fathers. Parents have a right to parental leave until their child has reached the age of three years and up to 12 months of the parental leave can be transferred to the time between the child's 3rd and 8th birthday (Destatis, 2022). There is something called parental allowance as well, which helps secure the financial basis of the families and is tax-free. This is therefore an area in which Germany is a lot more progressive as compared to India when it comes to paternal leave and parental leave in general, even though India has a lot more births as compared to Germany.

Conclusion

The level of development in a country heavily impacts how economic policies affect social justice. The stark difference between India and Germany's standard of living, even though both countries have similar policies, is clearly visible through the higher levels of inequality in India - across all three spectrums of income, access to necessities, and gender.

Both countries follow a progressive taxation system, but India's tax evasion problem shows how the economic development of a country can impair the measures and laws that are made to prevent income inequality, almost ineffective. Germany spends a lot more of their government expenditure on keeping their taxation policies in check as well as having a more hands-on approach to financial crime, which makes tax redistribution much more secure. Having a national wage system, while India employs a decentralized wage system, also means that there is a better-defended minimum wage system in place in Germany. Furthermore, India's lack of access to a better-provided education system also stems from the lack of economic prowess in the country, with rural areas being severely underfunded. The difference between the quality of both education systems is visible through the literacy rate, with Germany having a staggering 99% and India barely having 78%. Healthcare being underfunded is also heavily criticized when it comes to India's government expenditure. This can be attributed to a lack of awareness from the people and a lack of economic stability from the government. Finally, while gender equality might seem stronger in Germany, the truth is that the policies in place may promote more equal access to economic opportunities, particularly for top management roles, but the gender pay gap is a pressing issue in both countries regardless of one being far more developed than the other.

Overall, as time progresses, the Government of India does show an interest in bettering the country, but it will be a long while before it is developed enough to pioneer real change and promote true equality, to the extent that Germany does.

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