Economic Justice and Jubilee

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As often as economists assume preference for variety, one might imagine there would be quite a bit of variety to be found in the objective functions of today’s academic economic literature. There is not. In my graduate school experience, the oldest paper on tax policy I can remember studying was “A contribution to the theory of taxation” (Ramsey, 1927). At least from Ramsey to the present, the modern economic literature on taxation and government spending seems to take their objective entirely as given. Namely, to maximize some conception of social welfare. If Mary Hirschfeld’s (2018) wonderful book, Aquinas and the Market, left me with anything, it is that we should actively be evaluating our objectives. Consequently, I am thankful for the opportunity to reflect on this topic here.

Social welfare provides some flexibility, but that flexibility exists along the equality–efficiency spectrum. At the equality end we have the Rawlsian social welfare function of maximizing the worst outcomes. At the efficiency end lies a strict utilitarian framework with equal weights for the utility of all agents. Prior to this prompt, I do not recall having observed the concept of justice formally enter into any objective function regarding taxation and government spending. On reflection, this is a bit surprising. Perhaps the most common sentiment to arise in conversations about taxation outside the academy is the colloquial appeal to justice: “That’s not fair!”

Thankfully, despite my own ignorance, others have thought quite a bit on the topic. In preparing, I quickly came to realize (as the reader is likely aware) that, at one point, justice was central in conversations on taxation and spending. Since I am no expert in ethics or the history of Christian thought, allow me to build off a very fine talk given by Edd Noell. Aristotle provides a framework on economic justice that is picked up by the Scholastics including Aquinas. Aquinas categorizes justice in several ways. Following Aristotle, one way he splits justice is into two parts, namely commutative and distributive.

Commutative justice refers to justice in transaction. According to Aristotle, “the just is nothing other than having the same amount after
a transaction as before." Following Scholastic economic thought, violation of commutative justice can occur due to information asymmetries (selling fool's gold as real), through coercion, monopolist restrictions on quantity, etc.

Distributive justice is described by Aquinas as a geometric mean (proportional rather than arithmetic). To quote Eleanor Stump (2008, p. 317):

Any society has certain common goods to distribute—money and honor, for example—and certain burdens to impose—expenses and labor; and these all need to be distributed fairly. The mean for such distribution, however, is a matter of proportionality. If laborers are paid equally for doing unequal amounts of work, the mean of distributive justice is not preserved.

Since we already find ourselves off the (recently) beaten track by our consideration of justice, let me take things further. Rather than seek to provide a theory based on a mathematical model, or rather than starting from an empirical data set, I am going to step outside my expertise entirely and use a case study to focus our understanding of economic justice and then use that to analyze US policy regarding taxation and government spending. With this in mind, let us address a particular policy that may never have been implemented. Namely, Jubilee.

Jubilee was intended to occur every fiftieth year. One of the policies comprising Jubilee involved a restriction on the ownership of land. In particular, land outside city walls could not be permanently sold. Beginning at Leviticus 25:14 (New International Version):

14 If you sell land to any of your own people or buy land from them, do not take advantage of each other. 15 You are to buy from your own people on the basis of the number of years since the Jubilee. And they are to sell to you on the basis of the number of years left for harvesting crops. 16 When the years are many, you are to increase the price, and when the years are few, you are to decrease the price, because what is really being sold to you is the number of crops.

In verse 23:

23 The land must not be sold permanently, because the land is mine and you reside in my land as foreigners and strangers.
Contrary to popular notions, no redistribution is occurring. If the policies outlined in Jubilee are strictly observed, land outside city walls is not sold but leased for up to the number of years remaining until Jubilee, at which point the land is returned to its original owners. The strong admonishment on prices seems to provide a clear emphasis on classical notions of commutative justice. Prices are explicitly not to be in excess of the value provided by having temporary access to the land.

If Jubilee is not redistributive, what is the purpose of restricting the ability to permanently sell land? According to standard economic theory, a restriction on the contract space will likely decrease social welfare. There may be instances where the benefit of being able to permanently sell land is not beneficial to the present owners and the purchaser.

It appears likely that, outside city walls, the primary inputs to production in ancient Israel were land and labor. Whether for growing crops or managing herds, the ability to produce is closely tied to having access to these inputs. It is notable that access to one’s own labor is also returned to its original owner every fifty years, as slaves are to be released in the year of Jubilee.

One possible interpretation of Jubilee is that by slightly reducing the contract space, Israel furthers intergenerational distributive justice by protecting equality in the inheritance of the inputs to production. Of particular note, is that two things are reset every fifty years: access to one’s own labor and access to property that exists outside walled cities. These were the primary inputs to production at the time. Notably, it was not output that was protected but, rather, the means to produce that output.

This idea is summarized well by Noell and Smith (2020). They state: “the economic implication of the Sabbath principle here is the return of a key resource needed to maintain that particular family’s livelihood and participation in the stewardship activity that is needed for economic growth.”

Without access to the inputs to production, distributive justice is violated. Compensation may no longer be commensurate with effort or ability. Incentivizing efficient action and effort is maintained through the preservation of commutative justice. The harvest is reaped by the owner of the field, it is not redistributed.

Further, the period over which land can be sold is roughly an expected lifetime. Poor investments, or a failure to manage one’s land
well which results in a forced sale of that land, bears considerable consequence for the remainder of one's own life. However, and importantly, it does not forever mar the prospects of future generations. A parent cannot permanently sell the inheritance of their children. Also, notable is that large accumulations of land cannot permanently be passed on to one's offspring. Preventing permanent loss or accumulation of labor and land ownership prevents permanent distributive injustices. The poor economic choices of one's parents are prevented from placing a permanent burden on their offspring. Perhaps avoiding intergenerational poverty traps.

How does this discussion tie into present-day conversations on US fiscal policy? I provide two main conclusions in response to this question and apply them to particular policy ideas which, rather than being dogmatic or prescriptive, are chiefly intended to provide a launching point for further discussion.

First, it seems that implementation of ideas similar to those that animated Jubilee, in the present would seek to preserve commutative justice. Specifically, government spending should provide benefits commensurate with taxed amounts. I provide two observations related to this. Observation 1: there are many benefits that are disproportionately provided. For example, defense and security may provide a larger service to the wealthy than to the poor. It may be consistent with commutative justice to tax different groups different amounts for these shared services.

Observation 2: it is possible that what appears to be redistribution ex-post may preserve commutative justice ex-ante. For example, relief spending after a natural disaster may provide a form of insurance that ex-ante provided equal coverage geographically even though the acute benefits are only observed in locations where the disaster occurs. Similarly, providing transfers to businesses in response to an unforeseen global pandemic may do the same. However, if this is indeed a form of insurance then tax contributions should be required in normal times. An expectation of support in times of systemic economic distress reduces equilibrium equity holdings in large organizations like airline companies. This provides a benefit to shareholders in these organizations. I believe commutative justice would require an offsetting tax to compensate for this benefit. Alternatively, commutative justice is preserved if no expectation of bailout is provided and no bailout occurs in the case of an unforeseen systemic setback.
Returning to the Levitical prescription, according to the law laid out in Deuteronomy, debt forgiveness is to occur every seven years. Schaefer and Noell (2005) provide insight into how this institution may have functioned as a communal insurance program in the historical context. In this light, it is feasible that ex-ante a Scholastic notion of commutative justice is preserved in debt forgiveness (similar to modern insurance markets).

My second main conclusion is that distributive justice should seek to preserve generational access to the inputs to production. Rather than land and labor, in modern times I would argue these inputs primarily include labor, various forms of human capital, and physical capital.

The US fully restricts the permanent sale of future labor through restrictions on slavery, which successfully ensures access to one’s own labor. In the same way, expenditures and efforts aimed at preventing human trafficking contribute towards distributive justice.

Productive forms of human capital include health, education, skills, and character formation. Linking Jubilee with access to human capital formation is supported by Noell and Smith (2020). They state:

In contemporary societies, we are persuaded that the best outworking of the Jubilee principle is not about redistribution per se but about assuring that all members of society have access to the human capital—education and skills—that is now the basis for most wealth accumulation.

Public expenditure on education, and policies like trade adjustment assistance, are examples of government expenditures that seek to provide a form of distributive justice by providing access to education and training. On the other hand, linking educational expenditures to property values in the local area may represent a failure to fully realize this objective.

One particularly current example relates to the discussion of debt forgiveness on student loans. There are several reasons why I view this as a direct violation of justice.

First, it does not preserve distributive justice. Imagine two people who have the same financial scenario and the same series of life events. One chooses to pick up as much additional work as feasible to avoid debt and the other accepts the full loan amounts. After loan forgiveness, both are in the same financial position yet one has worked much harder.
This is a direct violation of distributive justice. Note, this scenario is not a form of insurance as no negative stochastic event occurred.

Second, generational access to education is not improved. Debt forgiveness to individuals who have already made their decision to attend college does not modify their decision or increase access to education ex-ante.

Finally, this policy also violates almost any social welfare objective. According to Catherine and Yannelis (2020), student debt forgiveness would likely represent a net transfer to higher income individuals. Forgiveness would benefit the top decile of income earners as much as the bottom three deciles combined.

Another area of human capital is character formation. By character formation I reference habits or disciplines that assist in the pursuit of productive activities. In a recent Atlantic article, Brooks (2020) documents how character formation has shifted from a responsibility of the community and the extended family to a responsibility of the nuclear family. While I do not believe that it falls to the state to provide character formation, I do believe improvements in distributive justice require a more consistent ability to provide this form of human capital. Perhaps due to the difficulty in its measurement, it is rarely mentioned in economic literature, yet my prior is that it is quite important in explaining differences in economic outcomes. Therefore, it may be relevant to conversations on economic justice.

Finally, Piketty (2013) and others seem to demonstrate an empirical failure to implement structures that preserve distributive justice in physical capital. The paucity of physical capital for some, and the astounding intergenerational accumulation by others, seem to go directly against the objectives of Jubilee. To summarize Piketty’s main idea: if returns to capital outpace the growth of GDP then physical capital or wealth has a tendency to concentrate in the hands of a few in a manner that is not tied to effort. This seems to be directly at odds with the institutional framework of the year of Jubilee.

While I am by no means an expert on estate tax and I am well aware of inefficient behaviors that may be undertaken to avoid paying it, it strikes me as worth linking to the conversation on economic justice in the light of Jubilee. What is required by commutative justice at the point of death? If the economic unit is the individual, then is commutative justice violated by a redistribution of their wealth at this point? I am
not sure. Further, a large material inheritance for some and a small one for others based on family wealth seems to be a direct violation of distributive justice, especially when this inheritance is likely correlated with receipt of human capital. The amount of inheritance does not appear to be based on the merit of the recipient. Finally, it is not immediately apparent that a large inheritance over some base amount actually benefits the recipient in any manner of flourishing espoused by Christian thought. While I offer this as a tenuous, and likely contentious reflection rather than a well-formed argument, it seems worthy of further consideration.

In conclusion, I suggest that a Christian vision for economic justice as it applies to US policy would require a preservation of commutative and distributive justice. To preserve commutative justice, government spending should provide benefits commensurate with taxed amounts. To preserve distributive justice, government spending and taxation should be oriented toward policies that seek to provide broad access to the inputs to production for individuals in each generation.

Notes
1. Dr Noell presented his talk at a 2020 ASSA session hosted by ACE. The talk was recorded and can be found on the Faithful Economy Podcast (https://anchor.fm/faithfuleconomy/)

References


