Inequality and the Role of Charitable Organizations

For Prelims: **Care Economy**, **LPG Reforms**, **Foreign Contribution (Regulation) Act**, **Pradhan Mantri Awas Yojana**, **Ayushman Bharat**, **Direct Benefit Transfers (DBT)**, **Sustainable Development Goal 10**

For Mains: Economic Inequality in India, Role of Philanthropy in Addressing Inequality, Role of Government in Wealth Redistribution

Source: TH

Why in News?

Warren Buffett (considered to be the greatest investor of all time) has donated over USD 52 billion to **charities,** emphasizing his belief that wealth should help equalize opportunities rather than **perpetuate** **inequality.**

- His philosophy aligns with **luck egalitarianism** and has sparked debates about the role of **charitable organizations** in addressing inequality.

Note: A charitable organization is an organization whose primary objectives are **philanthropy and social well-being** (e.g. educational, religious or other activities **serving the public interest or common good).**

How Does Buffett's Philosophy Align with Luck Egalitarianism?

- **Luck Egalitarianism:** Warren Buffett's philosophy aligns with **luck egalitarianism,** which argues that **inequalities from unchosen circumstances, like birthplace or socio-economic status, are unjust and should be mitigated.**
  - Buffett credits his success to both personal effort and structural advantages, like being born a white male in a prosperous US economy, believing his opportunities came from being in the **"right place at the right time."**
  - Researchers support this view, noting that **birthplace and national economic conditions** significantly influence individual wealth potential.
- **Philanthropy as Moral Responsibility:** Philanthropy, as a practical application of luck egalitarianism, redistributes resources to equalize opportunities.
  - Accumulating wealth across generations **perpetuates inequality and undermines** **meritocracy.** Using surplus wealth to create opportunities for the disadvantaged ensures fairness in societal outcomes.

What are the Factors Contributing to Inequality?

- **Economic Factors:**
    - **Neoliberal Policies**: Since the 1980s, deregulation, privatization, and reduced state intervention have **concentrated wealth among a small elite,** leaving wages stagnant for the majority.
        - In India, LPG (Liberalization, Privatization, Globalization) reforms have boosted growth but also led to wealth concentration and stagnant wages.
            - The 'World Inequality Report 2022' shows India's extreme inequality, with the **top 10% and 1% holding 57% and 22%** of national income, while the **bottom 50% share is just 13%.**
        - Globally, **71% of the population lives in countries with worsening inequality.**
    - **Monopolies**: Dominance by a few corporations stifles competition, leading to **higher profits for a few** and limited opportunities for others.
        - Companies like **Amazon, Microsoft, and Google** have amassed significant wealth through **near-monopolistic power,** often **undermining fair competition.**
    - **Financialization**: Growth in financial markets benefits investors and shareholders while sidelining wage earners.
        - Since the 2008 financial crisis, the number of billionaires has nearly doubled.
            - Rising incomes for the wealthiest drive inequality. In 2018, the **26 richest people owned as much wealth as the poorest 3.8 billion (half of the global population).**
- **Technological Factors:** Technological advances **benefit high-skilled workers, displacing low-skilled ones.** Limited access to technology and the internet restricts opportunities for marginalized communities.
- **Social Factors:** Women face wage gaps, limited leadership roles, and a heavy burden of unpaid care work.
    - Minority groups encounter racial and ethnic discrimination in employment.
    - In India, **caste, religion, and class hierarchies** hinder upward mobility for marginalized groups. People with disabilities face discrimination, limited job opportunities, and higher healthcare costs.
- **Health Inequalities:** Limited healthcare access, **chronic illness**, and malnutrition hinder productivity and development, perpetuating poverty in low-income and marginalized communities.
- **Governance:** Policy choices on taxation, welfare, and market regulation shape wealth distribution. Corruption **diverts resources,** worsening inequality, while weak labor rights contribute to wage stagnation and poor working conditions.
- **Environmental Factors:** Climate change and resource scarcity disproportionately harm poorer communities, while **environmental injustice** leaves marginalized groups exposed to pollution and poor health outcomes.

What is the Role of Charitable Organization in Addressing Inequality?

- **Providing Immediate Relief:** Charitable organizations provide essential services like **food, shelter, healthcare, and education** to those affected by poverty and inequality, offering **short-term relief** and helps bridge the gap where government programs or markets are insufficient, and support marginalized communities.
- **Social Awareness and Advocacy:** Charitable organizations advocate for **policy changes by raising awareness about social injustices,** helping to inform the public and encourage reforms.
    - For example, they may campaign for gender equality, **workers' rights, or access to healthcare,** influencing public opinion and policy.
- **Wealth Redistribution:** Charitable organizations help redistribute wealth by funding programs that address inequality, such as **poverty alleviation, education, and healthcare.**
    - For example, Bill and Melinda Gates have donated billions to global health and education initiatives to reduce inequality.
- **Supporting Long-Term Development:** Some charitable organizations focus on long-term solutions like sustainable agriculture, microloans, **and** local entrepreneurship, empowering women and communities.
    - Tata Trusts' Lakhpati Kisan Initiative empowers tribal farmers with improved agricultural

practices to create **sustainable livelihoods.**

Laws Governing Charitable Organizations in India

- **Income Tax Act, 1961**: Provides **tax exemptions** for charitable donations and defines "charitable purposes."
- **Constitution of India (Article 19(1)(c))**: Citizens have the freedom to form social, cultural, economic, or political associations or unions.
- **Indian Trusts Act, 1882**: Governs private charitable trusts.
- **Societies Registration Act, 1860**: Regulates charitable societies.
- **Companies Act, 1956 (Section 25)**: Allows **non-profit companies** to operate as charities.
- **Foreign Contribution (Regulation) Act, 2010**: Charitable organizations can receive foreign funds, but they must be registered under the **Foreign Contribution (Regulation) Act, 2010 (FCRA)** to ensure that donations are used for legitimate, non-political purposes.

What are the Limitations of Charitable Organization in Addressing Inequality?

- **Temporary Solution**: Charitable organizations alleviate immediate suffering **but don't address root causes** of **wealth inequality like deregulation and monopolistic practices.**
  - Wealth accumulation by the rich often results from systemic policies. Charity doesn't challenge issues like **stagnant wages and poor working conditions.**
- **Dependency on Individual Will**: Charitable organizations rely on the **voluntary generosity of the wealthy,** making it **inconsistent and insufficient** to address widespread inequality.
- **Perpetuates Status Quo:** Charitable organizations can perpetuate the status quo by giving the **wealthy social legitimacy** without addressing root causes of inequality. It may **reduce pressure for structural reforms,** serving the interests of the rich and maintaining existing power dynamics, delaying **necessary systemic changes.**
- **Lack of Accountability:** Charitable organizations may not be held accountable for the effectiveness of their programs or the long-term impact of their initiatives on reducing inequality.
- **Misuse of Charitable Donations:** Some individuals and organizations use donations to **trusts as a way to evade taxes**.
  - By making large donations to charitable trusts, they can claim tax deductions without the funds being used effectively for the intended charitable purposes.

India's Initiatives to Address Inequality

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**
- **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)**
- **Deendayal Antyodaya Yojana- National Urban Livelihoods Mission (DAY-NULM)**
- **Pradhan Mantri Awas Yojana (PMAY)**
- **Ayushman Bharat**
- **Direct Benefit Transfers (DBT)**
- **Swachh Bharat Mission**

Way Forward

- **State-Led Redistribution:** Recognize that charitable organizations cannot substitute for systemic change and **support state-led redistribution.**
  - Advocate for state-led efforts focusing on welfare programs, social safety nets, and sustainable growth to reduce inequality, aligning with **Sustainable Development Goal 10 (reduced inequalities)**. **India as a welfare state,** should spearhead these initiatives.
- **Reform Economic Policies:** Implement **progressive taxation systems** to redistribute wealth

and fund public goods. Strengthen antitrust laws to prevent monopolies and ensure fair market competition.
    - Address the root causes of wealth inequality, such as deregulation and neoliberal economic policies.
- **Equity and Opportunity**: Ensuring equal access to resources, technology, and basic services is essential to bridging the divide.
- **Rethink Corporate Practices:** Enforce higher wages, better working conditions, and fair profit-sharing for workers.
- **Promote Global Cooperation:** Address global inequality through international trade reforms, debt relief for poorer nations, and cracking down on tax havens.

Drishti Mains Question:

Discuss the limitations of charity in addressing inequality and whether wealth redistribution through government policies should take precedence over philanthropy.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q. Public charitable trusts have the potential to make India's development more inclusive as they relate to certain vital public issues. Comment**. (2024)**