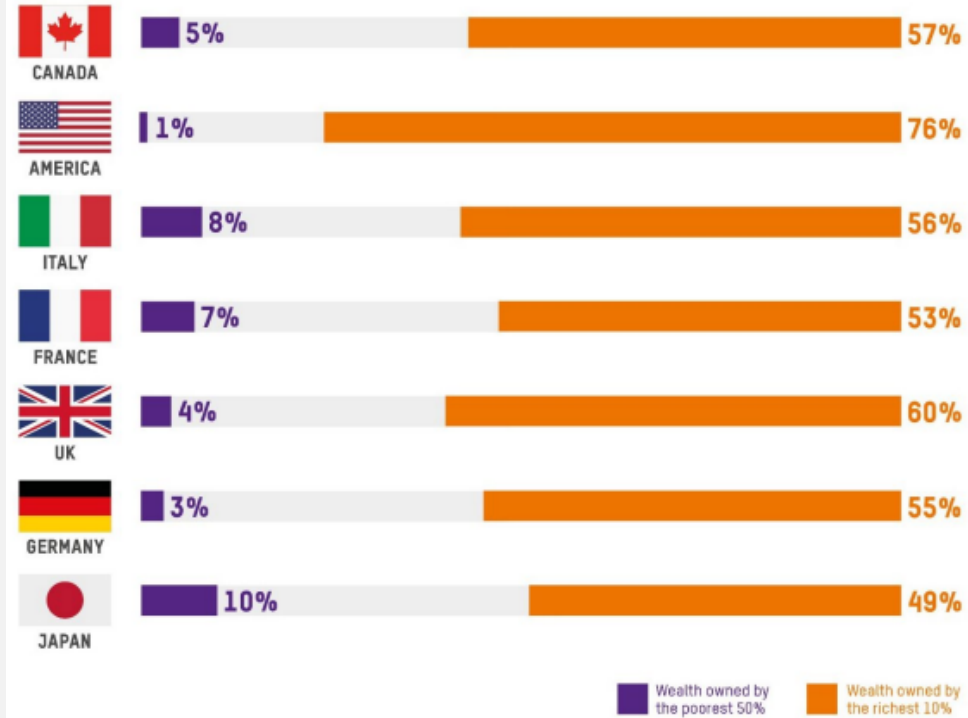


# ECONOMIC INEQUALITY IN THE GLOBAL SOUTH

Bonawentura Lach

# ANNUAL OF XFAM'S REPORT



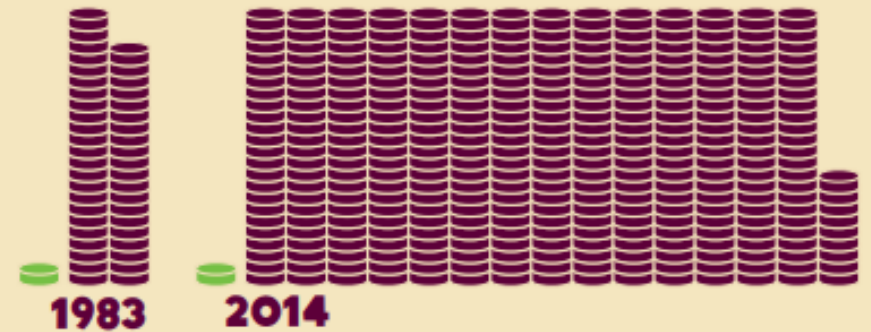
THERE ARE 16 BILLIONAIRES  
IN SUB-SAHARAN AFRICA LIVING ALONGSIDE  
THE 358 MILLION PEOPLE LIVING  
IN EXTREME POVERTY



**85 PEOPLE**

have the same wealth as half the people on our planet.

THE WORLD'S RICHEST 1% HAVE MORE THAN TWICE AS MUCH WEALTH AS 6.9 BILLION PEOPLE.



In 1983, a CEO in the US made 40 times as much as his average worker; now he makes 331 times as much.

# THE PROBLEMS WITH OXFAM

- Ignoring the purchasing power of money
- Not taking into account „human capital”
- „Poorest” 10% are just debtors
- Calculating debt as a negative wealth
- Ignoring long-term trends
- Focusing on short-term changes
- Data only from 49 countries (47 of them are developed)
- Fabricating data for the Global South

# GINI INDEX

Country 	Gini Index around 2000 	Country 	Gini Index around 2015 
Sweden	25.27	Ukraine	25.46
Denmark	25.63	Kosovo	26.39
Iceland	26.83	Belarus	26.73
Norway	27.62	Kazakhstan	26.86
Finland	27.68	Moldova	27.03

# THE BENEFITS OF INEQUALITIES

- **Division of labor** – poor people (with no experience, nor qualifications) are good workers in lower-paid jobs
- **Motivation** – seeing wealth motivates you to work harder and improve your skills
- **Innovation** – the possibility of producing some goods, even though they are still very expensive
- **94% of „1%” is on the list for one year** – „the rich” are not safe with their wealth, they have to be enterprising to maintain it
- **50% of Americans is in the „1%” at least once** – each and every one of us can be in the „1%”
- We must not focus on the **inequalities, but on poverty**

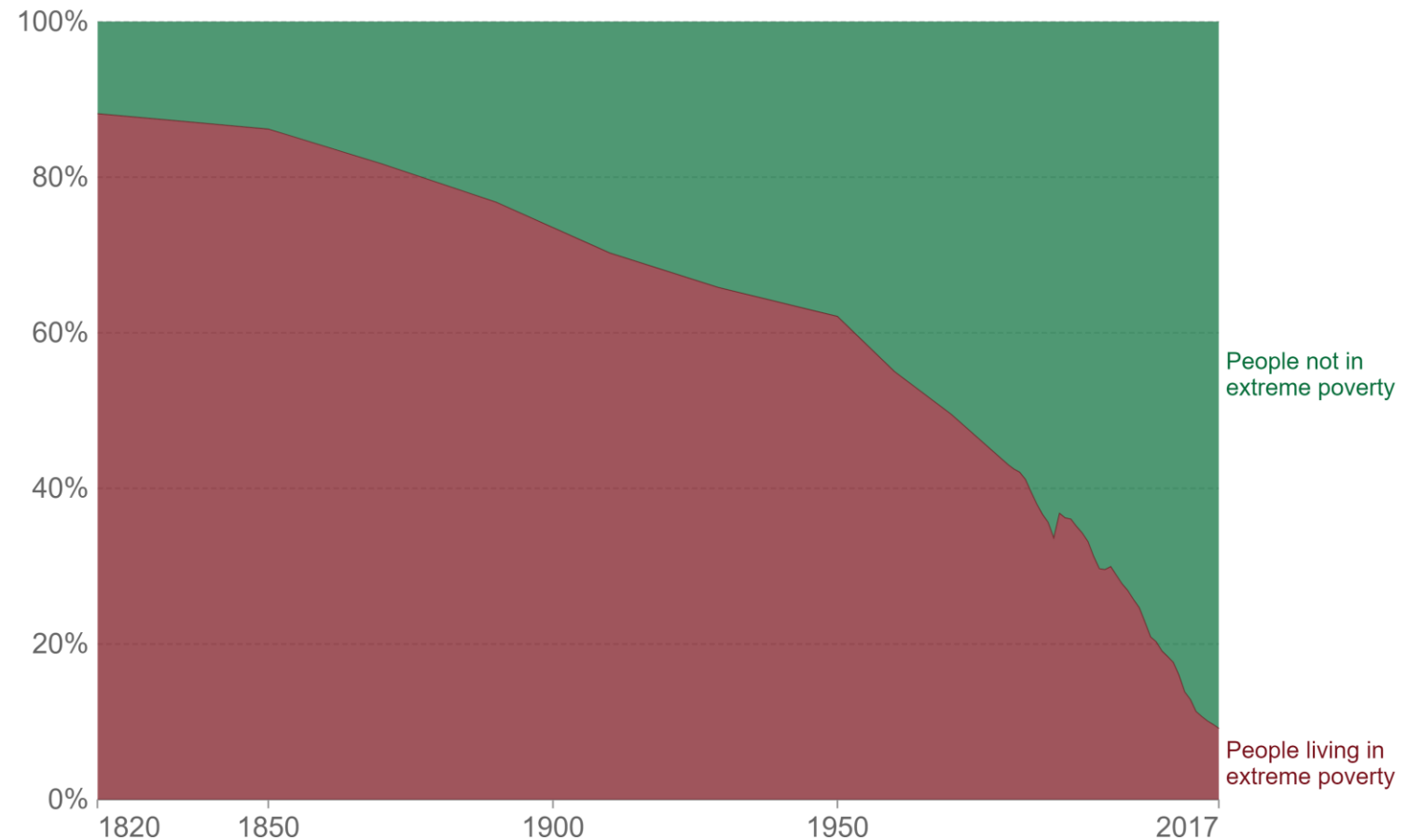
# CAUSES OF POVERTY

The question of the causes of poverty is fundamentally wrong. Rather, we should ask why we no longer starve. Poverty is the initial state of humanity.

Since the dawn of mankind, we were miserable, because the amount of natural resources is limited, so we cannot be richer, until we find out how to be more productive.

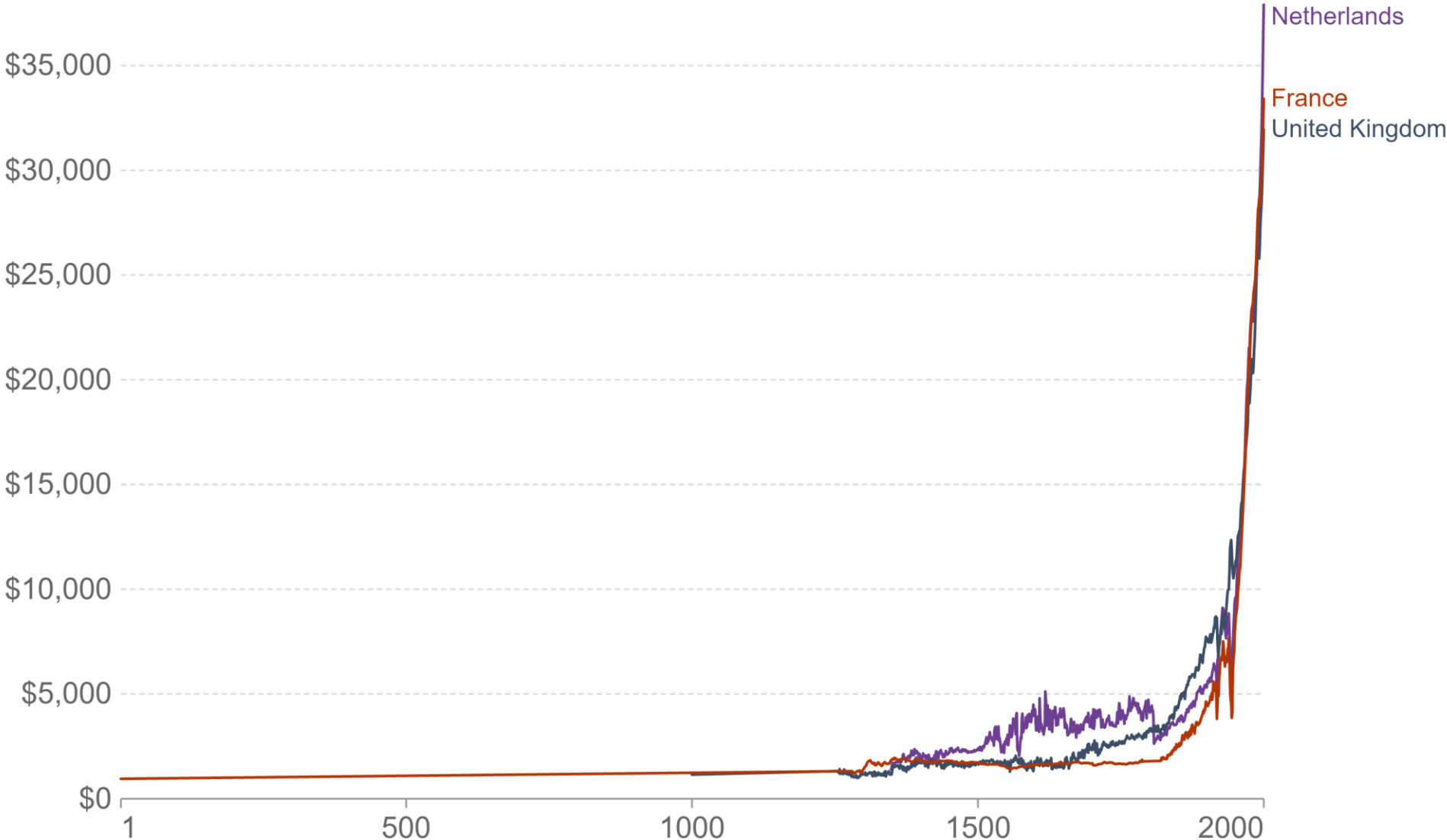
That (increase in productivity) happened in XVII century, and we call it The Industrial Revolution

Reconstruction of historical global extreme poverty rates, World, 1820 to 2017



# GDP per capita, 1 to 2000

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.



Source: Maddison Project Database 2020 (Bolt and van Zanden (2020))

# PUTATIVE CAUSES OF THE ENRICHMENT

- **Exploitation** – can only explain distribution, but not the increase in the amount of wealth
- **Peace** – always, until the 20th century, Europe was very militant continent
- **Science** – development in science, as long as it remains only in science, does not influence the real economy. Moreover, the Middle East and China also developed science, even earlier than Europe. Furthermore, the Global South has access to science from the Developed Countries
- **Genetic predispositions** – the peoples of England do not seem to display any intelligence that is unusual in the world. Moreover, there are many wiser nations, for example Asians. Furthermore, genetic changes could explain the industrial EVOLUTION, but they cannot explain the industrial REVOLUTION. Flynn effect
- **Trade** – The largest trading companies in history (East India Company, Dutch West India Company, Dutch East India Company) were established long before the industrial revolution. Trade also included Asia, but there was no revolution there. Also today the countries of the Global South are often in trade unions, but this does not translate into a dramatic increase in wealth.
- **Capital accumulation** – it was also before the industrial revolution. In medieval Europe, the savings rate often reached over 20%. South American Indians were also famous for their huge savings, hence the legend of El Dorado
- **Innovations** – it is a correct answer, but incomplete. We need to explain why there has been an increase in innovation in England, despite the fact that inventions were also made in other parts of the world. Moreover, it is necessary to answer the question why the countries of the Global South, despite having access to modern inventions, do not become developed



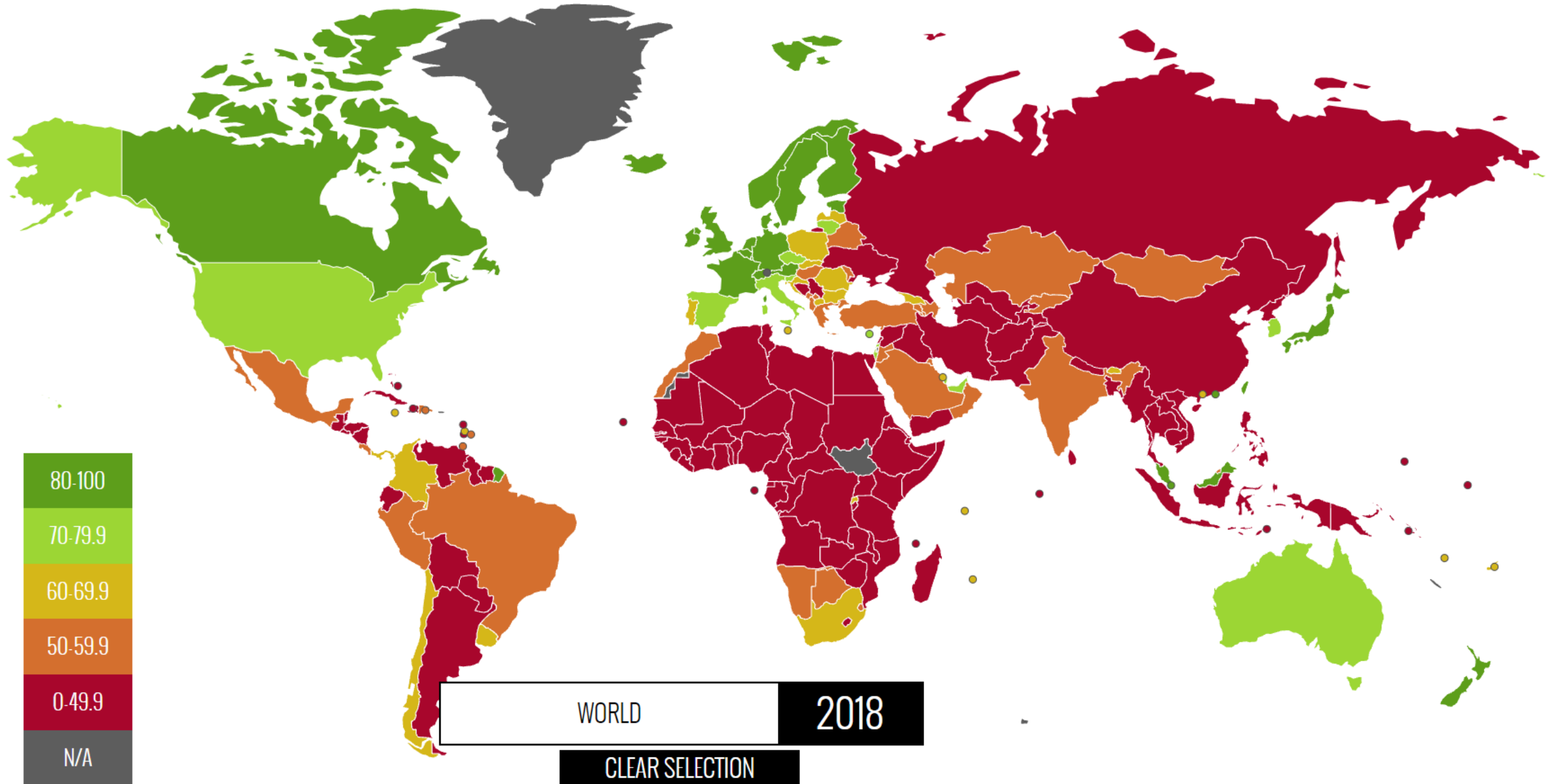
# INSTITUTIONAL ENVIRONMENT

Of course, all the aforementioned elements were important for the enrichment of the Western countries.

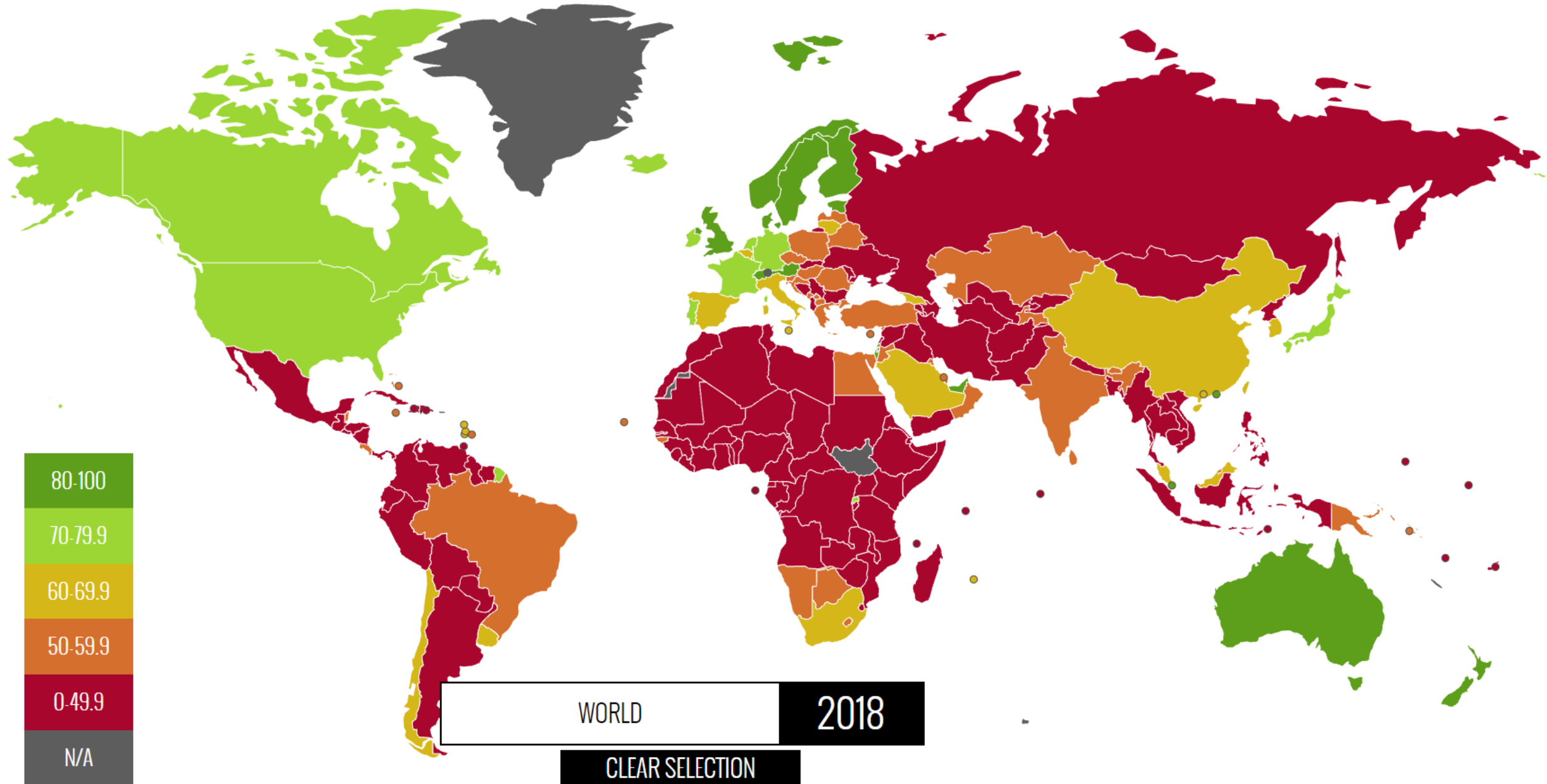
They can be compared to strategies telling you what to do to succeed in the game. However, in order to achieve this success, it is also necessary to follow the "rules of the game". We call these rules "institutions" when they relate to social life.

Even knowing winning strategies, we cannot win if other players do not follow the rules

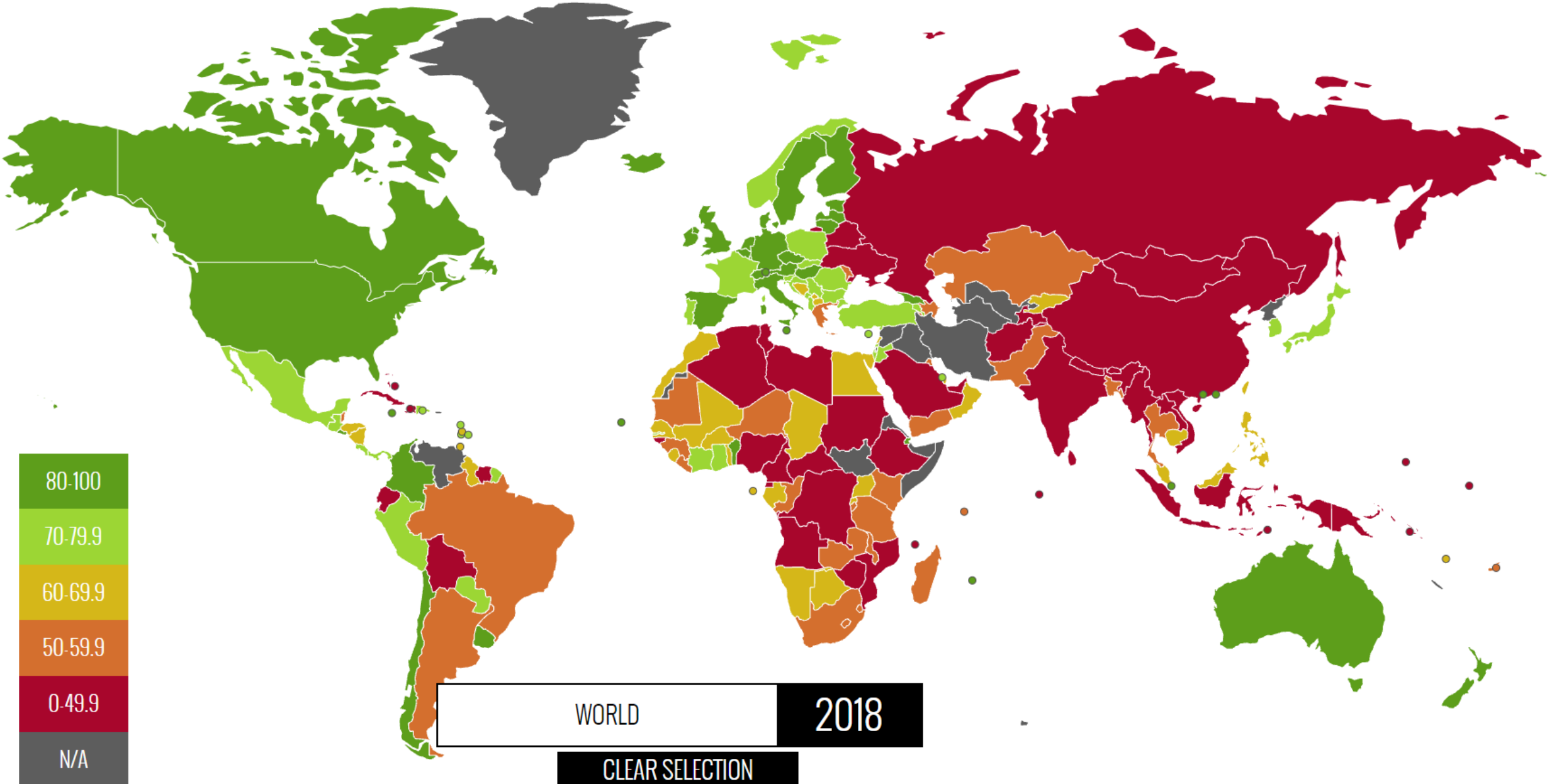
# PROPERTY RIGHTS



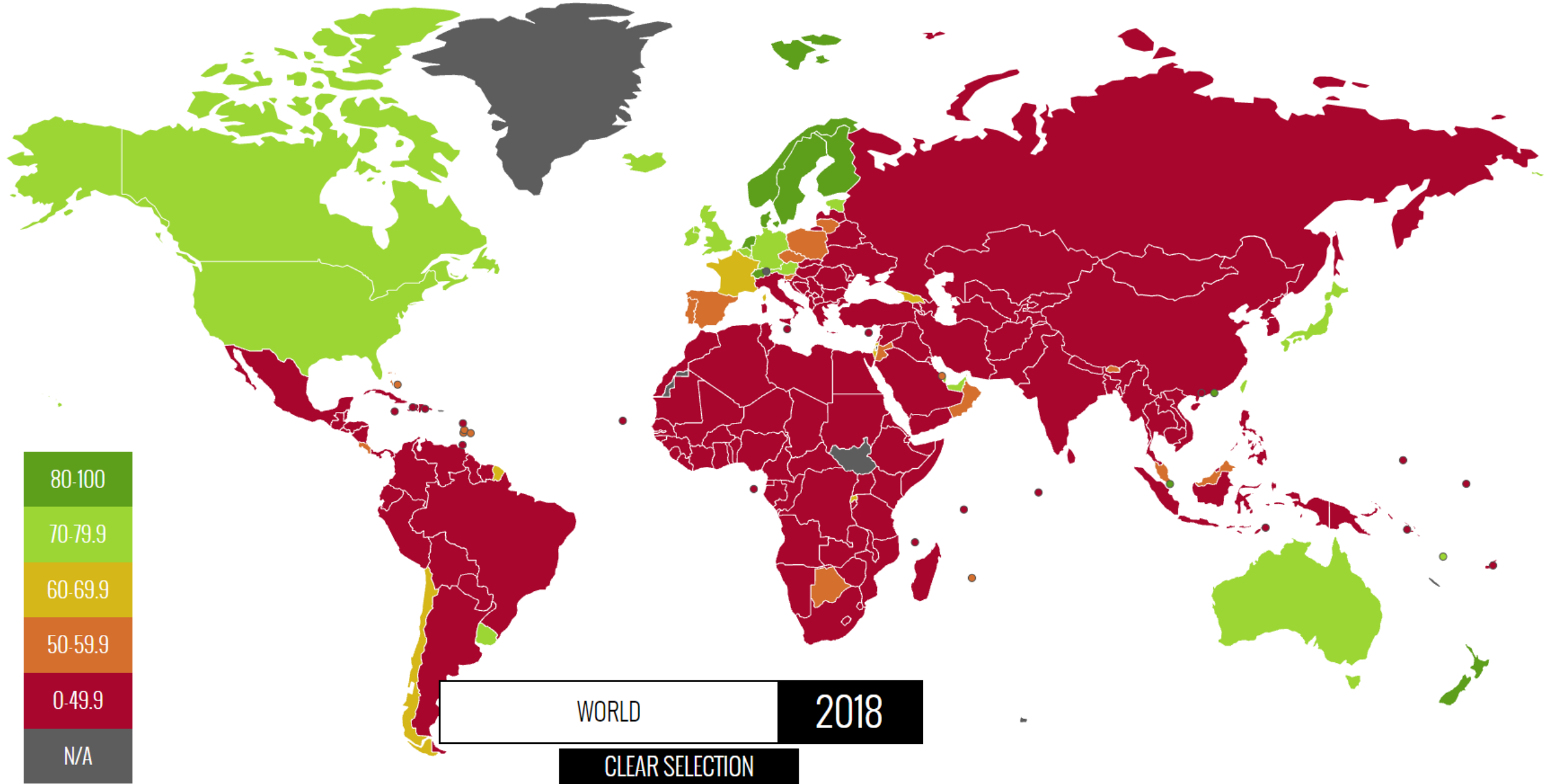
# JUDICIAL EFFECTIVENESS



# INVESTMENT FREEDOM



# GOVERNMENT INTEGRITY



# INSTITUTIONAL ENVIRONMENT

**Formal Institutions** They are definitely better for measuring. The state of some of them in the countries of the Global South is presented above. However, we must ask why these institutions are not working properly? After all, the Developing Countries see the patterns working in the Northern Countries, and the benefits that flow from them. Moreover, Developed Countries often intervene by writing laws for developing countries and helping them with military missions

A potential reason why helping these countries does not bring results may be poorly functioning „social/informal institutions” i.e. a way of thinking that is ingrained in people's minds

**Social Institutions** They are very difficult to measure, so the conclusions made here remain speculative. Nevertheless, it can be said that the development of the country and society requires such institutions as those that began to develop in Europe in the 17th and 18th centuries:

- Economic Harmonies – understanding that my neighbor's profit is not my loss, but a profit for everyone
- Bourgeois Dignity – accepting that some people are doing much better in the economy, and showing them respect rather than envy
- Creative Destruction – understanding the fact that development requires the collapse of certain elements of social and economic life as a step towards change for the better

# CONCLUSIONS

- It is not worth reading the Oxfam reports, because they are deceptive and unscientific
- Economic inequality is not necessarily a bad thing, as long as even the poorest profit from it
- Not all problems of the Global South can be solved through outside intervention
- If the Global South is to become developed, it must follow the same path as the Western countries in improving their institutions
- The countries of the Global South are in a much better situation than Europe in the 18th century, because they can start peaceful cooperation with already rich countries

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