GLOBAL INEQUALITY

THE HARD FACTS

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Table of Contents

Introduction

On a global level, instead of international tax and monetary policies shrinking global inequality, they have helped do the opposite at a great expense to the world's poorest inhabitants—who lack decent opportunities and access to food, shelter, health, and education. Many live on less than $1 a day. This is their lot in life not because of what they did but because of factors out of their control like what part of the globe they were born in, race, nationality, or sex. While inequality has always been a part of the human experience, it has reached inexcusable levels.

The Extent of Global Inequality

According to a study of 43,060 transnational corporations drawn from a sample of 30 million done by researchers in Zurich, 40 percent of the global economy is controlled by 147 strongly connected transnational corporations—three-quarters of which are financial institutions. Having a disproportionate share of global wealth in the hands of a few has not always been the case and the inequality gap between countries used to be much narrower.

"200 years ago, rich countries were only 3 times richer than poor countries. By the end of colonialism in the 1960s, they were 35 times richer. Today, they're about 80 times richer," says TheRules.Org. The 1999 Human Development Report divulged that, the world's richest 20% had 86% of world GDP and the poorest 20% had 1%. It added that the former had 82% share of global exports of goods and services while the latter only 1%. This trend remained unchanged in the new millennium. A 2011 UNICEF report revealed that, the richest 20% still enjoyed almost 83% of total global income whereas the poorest 20% continued to enjoy 1%.

How about wealth disparity? Wealth inequality where wealth is defined as "...the value of financial assets plus real assets owned by households, less their debts," is also widening. The 2013 Credit Suisse Global Wealth Report reported that global wealth had reached $241 trillion—a 68% increase since 2003.[1] The richest 10% of the world's population currently own 86% of global wealth while the bottom half of all adults own less than 1%. The report added that the average global wealth per person is $51,600 but in rich nations, the average wealth is $100,000 per adult added. Outliers include Luxembourg, Norway, Australia and Switzerland where average wealth per adult in 2013 were $315,000, $380,000, $403,000 and $513,000 respectively. In contrast to rich nations, the average wealth per adult in nations in central Africa and South Asia was $5,000 or less.

Demographics and Inequality

The 2012 World Populations Prospect disclosed that 81 million persons are added to the globe annually. The earth's population is 7.2 billion. Of this, nearly 6 billion reside in the poor regions of the world meaning 82.5% of the world's people live in less developed countries. The rich, though comparatively smaller in number (as percent of global

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[1] See https://www.credit-suisse.com/us/en/news-and-expertise/research/credit-suisse-research-institute/publications.html

population) and aging, own a disproportionate majority of global wealth. The poor—the overwhelming youthful majority—have to make do with less than a fifth of global wealth. In effect, leaders of developing nations have to provide jobs, food and basic amenities for their citizens using very little resources at their disposal. It is true that some abuse the little they have. Nonetheless the odds are stacked against many governments right from the start.

Such stark inequality cannot exist without cost.

The Cost of Global Inequality

History teaches that inequality—the unfair difference between groups of people, where some have inordinately more wealth, status or opportunities than others—is a major cause of radical social and political upheavals. In pre-globalization, such upheavals were confined to specific geographical locations. But with globalization and the increasing interconnectedness of the human family, these conflicts are no longer localized. One controversial example of such a conflict is transnational terrorism that targets rich nations.

At a development summit in Mexico for world leaders, former United Nations Secretary General. Kofi Annan remarked that, "No-one in this world can feel comfortable, or safe, while so many are suffering and deprived." Former Director-General of the World Trade Organization, Mike Moore also said, "[Poverty] is a time bomb lodged against the heart of liberty" citing it as "the greatest single threat to peace, security, democracy, human rights and the environment."

The United Nation's report on the World's Social Situation explained that, "violence associated with national and international acts of terrorism should be viewed in the context of social inequality and disintegration". The report added, "Violence is more common where inequalities are greater."

If the UN analysis is accurate, then the cost of global inequality is not just the deaths of millions of poor people on a daily basis as a result of poverty and crime, but also increased transnational piracy and terrorism. Additional costs include the colossal sums rich nations spend to protect themselves from these vices locally and internationally. These sums could have been used to develop the developing world—thus reducing these poverty related social conflicts increasingly aimed at the rich. Decreasing the level of global inequality is key in combating systemic poverty.

December last year, Jeffery Sachs bemoaned that "the U.S., Canada, UK, France, Germany, Italy, Spain, Portugal, Norway, Sweden, Japan, Denmark, Belgium, Austria, Switzerland, China, Singapore, Korea, Saudi Arabia, Jamie Dimon, Lloyd Blankfein, John Paulson, Barack Obama, Stephen Harper, 1,600 billionaires (with combined net worth of at least $5.5 trillion), and the rest of humanity" could not generate $5 billion a year to fight AIDS, Tuberculosis and Malaria. Yet these countries and individuals will spend more than 10 times this amount to fight terrorism or piracy. Why not address the root of the challenge instead of flailing at the leaves?

Extreme high infant and maternal mortality rates persist in parts of the developing world. The poor are deprived the ability to lead a long and healthy life, access to knowledge and a decent standard of living. These are all costs associated with high global inequality. For one reason or another, the rich, which posses most of the global wealth, has refused to concretely address these challenges.

Mr. Sach's summed up the apathy of the rich to the plight of the poor thus: "The world has told the poor and dying to drop dead. Their deaths are silent and unremarked. Local clinics in rural villages will simply stock out of medicines. Health workers will lack equipment. Training programs won't occur. Outreach to the villages won't take place. The poor will die silently, without protest. It's the willful neglect by men".

What about Overseas Development Assistance?

Rich nations compensate for global inequality by giving development assistance. This amounts to about $130 billion annually. Why has this sum not made a dent in global inequality? Thomas W. Pogge suggests that the rich who write the rules write them in such a way that they promote global inequality. Even though developing nations receive $130 billion a year, transnational corporations owned by the rich using loopholes/rules in the global economic system bleed developing countries "...in excess of $550 billion annually" through trade mispricing, a form of tax avoidance. These sums are parked in tax havens in the world's richest countries. Developing nations also lose between $859 billion to $1.06 trillion annually from crime, corruption, tax evasion, and other illicit activity according to Global Financial Integrity Report. Furthermore they must pay about $600 billion to rich countries annually in servicing external debts. Priority is given to servicing these debts over providing basic social services to citizens because that's how the international system is set up.

All the above are part of the reason why aid is not able to make a dent in tackling global inequality—not just because leaders in the developing world are inept at taking advantage of aid.

The End of the Matter

One argument for a widening global inequality is, "Affluent states and the international organizations they control knowingly contribute greatly to these evils [inequality and poverty]—selfishly promoting rules and policies harmful to the poor while hypocritically pretending to set and promote ambitious development goals." This is true. It is also true that another reason for high inequality is multilevel regulatory capture[2] and political capture of some leaders and agencies of affluent nations.

For instance, it is disclosed in connection to the 2007/2008 global financial crisis that "The US Congress and agencies such as the Treasury Department, the Federal Reserve, the Securities and Exchange Commission (SEC), and in Britain HM Treasury, the Bank of England and the Financial Services Authority (FSA), presided over a series of deregulatory reforms excessively favourable to the biggest banks." How can these agencies be expected to help stabilize the global economy when they are in part responsible for widening global inequality?

It is time to reduce high global inequality but this cannot be done by simply increasing aid to the poor. While that would be laudable, it would be nonsensical to do that while maintaining an opaque global financial system which takes more out of poor nations than it puts in—hence the need for international reform encompassing international banking, trade, tax and transparency regulation.

The rules need re-**vision**-ing to better redistribute global wealth. Resisting reform is simply postponing the inevitable. If the poor do not resort to more violent means of correcting the excessive imbalance of wealth, a potential reset of the global economy arising from the collapse of major currencies of richer nations, namely the dollar and euro, could trigger this. Why wait for either possibility or their implications for global inequality when we can simply CHANGE our direction by rewriting the rules to be more favorable to the poorest of the globe? Albert Einstein is credited with defining insanity as, "...doing the same thing over and over again and expecting different results." If the globe wants narrowing of global inequality, it should be willing to do things differently than it has in the past. Global leaders and the rich should consider sharing with the poor some of the 86% of global wealth that only 10% of the world's richest controls.

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[2] "Regulatory capture" occurs when special interests co-opt policymakers or political bodies — regulatory agencies, in particular — to further their own ends. Capture theory is closely related to the "rent-seeking" and "political failure" theories developed by the public choice school of economics. Another term for regulatory capture is "client politics," which according to James Q. Wilson, "occurs when most or all of the benefits of a program go to some single, reasonably small interest (and industry, profession, or locality) but most or all of the costs will be borne by a large number of people (for example, all taxpayers)." (James Q. Wilson, Bureaucracy, 1989, at 76). Source: http://techliberation.com/2010/12/19/regulatory-capture-what-the-experts-have-found/