

Is Capitalism Really the Cause of Global Inequality?

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In recent years, Western observers have increasingly treated inequality as a domestic issue. But while there is a strong case to be made for strengthening social safety nets in developed countries, this framing of the issue overlooks the plight of hundreds of millions of people around the world still living in extreme poverty.

CAMBRIDGE – In 2014, the French economist Thomas Piketty’s *Capital in the Twenty-First Century* became an international sensation, reshaping the inequality debate and launching its author into superstardom. Dr Piketty was right to point out that the political case for income redistribution is almost entirely focused on domestic concerns. But his central argument—that capitalism inevitably leads to growing inequality—falls apart when comparing the situation of impoverished farmers in Vietnam with the relative comfort of middle-class French citizens.

In reality, the trade-driven rise of economies in Asia and Central and Eastern Europe over the past four decades has led to what may be the most dramatic reduction in cross-country disparities in human history. Despite this, Western observers rarely pay more than lip service to the roughly 85 per cent of the world’s population living in the Global South. While philanthropists like Bill Gates devote significant resources to improving lives in Africa, most foundations and institutions remain focused on reducing within-country inequality. Although both causes are admirable, political analysts often ignore the fact that, by global standards, poverty is virtually nonexistent in advanced economies.

Farmers in India, of course, have no influence over US or European elections, where the focus has increasingly turned inward in recent years. Nowadays, candidates do not win by pledging to help Africa, let alone South Asia or South America. This shift helps explain why Dr Piketty’s framing of inequality as a domestic issue has resonated strongly with American progressives— and, indirectly, with former President Donald Trump’s Make America Great Again movement.

But this interpretation overlooks the hundreds of millions of people living in climate-vulnerable developing countries. Moreover, despite the lasting impact of colonialism, there is little appetite in Europe's welfare states or Japan for paying reparations to former colonies. To be sure, there is a strong case for strengthening social safety nets in developed countries, especially when it comes to education and health care. From a moral standpoint, though, it remains highly debatable whether this outweighs the urgent need to address the plight of the 700 million people around the world living in extreme poverty.

To their credit, the World Bank and the International Monetary Fund have taken significant steps to assist developing countries. But their resources and mandates are limited, and rich countries tend to support policies and initiatives that align with their own interests. One area where there seems to be broad consensus is the need for climate action. With this in mind, I have long advocated the creation of a World Carbon Bank that would support developing countries' green transition by providing technical assistance and offering large-scale climate financing, preferably through grants, not loans.

As I recently argued, grant financing is especially important in view of another crucial way to reform global capitalism: Barring private lenders from suing defaulting sovereign debtors in developed-country courts. Ultimately, reducing global poverty requires greater openness and fewer trade barriers. The global economy's fragmentation, fuelled by geopolitical tensions and populist politicians pushing for trade restrictions, poses a serious threat to the economic prospects of the world's poorest countries. The risk that political instability in these regions will spill over into wealthier countries is escalating at an alarming pace, already reflected in these countries' increasingly fraught debates about immigration.

Developed economies have three options, none of which focuses solely on domestic inequality. First, they can strengthen their ability to manage migration pressures and confront regimes that seek to destabilise the global order. Second, they can increase support for low-income countries, particularly those capable of avoiding civil war. Lastly, they can send citizens to assist low-income countries. Many governments have already experimented with domestic programmes that encourage recent college graduates to spend a year teaching or building homes in underprivileged communities.

At the very least, sending Western students to developing countries— even for short periods — would enable privileged campus activists to learn about the economic hardships faced by much of the world's population and see for themselves how people live in countries where capitalism has yet to take hold. Such experiences could foster a deeper awareness of global challenges and give

young people a clearer understanding of the crises that may eventually affect their own lives.

This is not to suggest that within-country inequality is not a serious issue. But it is not the greatest threat to sustainability and human welfare. The most urgent task facing Western leaders is finding the political will to enable countries to access global markets and bring their citizens into the twenty-first century.

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