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Causes and consequences of inequality between countries

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Abstract

The paper examines the persistent inequality between countries, arguing that it stems from deeply rooted historical and structural factors that reinforce each other. Drawing on the Nobel Prize-winning research of Acemoglu, Johnson, and Robinson, the analysis shows how colonial powers created extractive institutions in regions with high mortality rates, leading to long-term poverty and weak governance, while more inclusive systems emerged elsewhere. These initial differences, reinforced by path dependence, continue to shape modern economic and political outcomes. The paper further explores how contemporary global systems, including unequal power in the IMF and World Bank, unfair trade rules, sovereign debt burdens, and technology gaps, reproduce and worsen inter-country inequality. Consequences include democratic erosion, political instability, brain drain, and intergenerational poverty traps. While policy responses such as institutional reform, debt relief, trade adjustments, and reparations are discussed, their implementation faces significant political obstacles. The paper concludes that without major shifts in global power and resource sharing, the gap between rich and poor nations is likely to persist or even widen.

Keywords: global inequality, colonialism, institutional path dependence.

1. Introduction

The gap between the richest and poorest countries is still one of the most serious and long-lasting problems. Even though technology and global trade have created huge amounts of wealth, this wealth is not shared evenly. Data from the World Inequality Database shows that the ten richest countries earn many times more per person than the ten poorest countries, most of which are former colonies in Sub-Saharan Africa (WID, 2024). This gap is not just about numbers, it affects political stability, health, democracy, and the future development of billions of people.

Understanding why these large differences between countries continue, and what effects they have, is very important. In 2024, the Nobel Prize in Economic Sciences was awarded to Daron Acemoglu, Simon Johnson, and James A. Robinson for their research on this topic (PBS NewsHour, 2024). They showed that the wealth of nations is strongly shaped by their institutions, which were often formed during historical events such as European colonialism. Their work highlights a key idea used in this

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paper: inequality between countries is not random, but the result of clear historical and structural causes.

This paper looks at the main reasons for inequality between countries and explores its wide effects. It focuses on differences between countries, such as income, wealth, and overall development, rather than inequality within countries, although the two are connected. Common measures used in research, such as GDP per person adjusted for cost of living (PPP), the Gini coefficient, and the Human Development Index (HDI), will be used to support the discussion.

The main argument of this paper is that inequality between countries comes from a mix of historical and structural factors that reinforce each other. Colonial systems created lasting differences in institutions and wealth. These differences were made stronger over time by unequal roles in global decision-making, unfair trade systems, and growing national debt. The effects of this inequality go beyond the economy, they include weaker democracies, more political conflict, increased migration, and unequal access to healthcare and education.

The paper is organised as follows. Section 2 looks at the historical causes of inequality, especially the impact of colonialism. Section 3 examines how inequality continues in today's global system. Section 4 discusses the effects of inequality on politics, society, and the economy. Section 5 reviews possible solutions and their limits. The paper ends with a summary of the main points and suggestions for future research.

2. Historical roots of inequality between countries

To understand why some countries are much richer than others today, we need to look at history. Modern factors like government quality and trade policies do matter, but many researchers agree that today's global inequality has its roots in the colonial period. The systems created during colonisation still influence how countries develop. This section looks at three connected ideas: extractive colonial systems, the role of natural conditions at the start, and path dependence (how past decisions shape the future).

2.1. Extractive institutions and the legacy of colonialism

One of the most important explanations for global inequality comes from the work of Daron Acemoglu, Simon Johnson, and James A. Robinson, who received the Nobel Prize in Economics in 2024 (PBS NewsHour, 2024). In their well-known 2001 study, they argue that European colonial powers used different strategies depending on local conditions (Acemoglu et al., 2001).

In places where Europeans faced high death rates, they did not settle in large numbers. Instead, they set up extractive systems designed to take resources out of the country. In areas where Europeans could settle more easily, they created more inclusive systems, with stronger property rights, laws, and limits on power, which later helped economic growth (Acemoglu et al., 2001). Where settlement was difficult, colonial powers created what the authors call "extractive states." These systems were built to benefit the colonisers, not the local population. For example, in places like Peru, Bolivia, and parts of the Caribbean, the focus was on mining and plantation farming, often using enslaved labour (Acemoglu et al., 2001).

A key point is that these systems did not disappear after independence. They continued to shape politics and economies for many years. According to their research, differences in these systems explain a large share of income differences between former colonies today (Acemoglu et al., 2001). This link between colonial history and poverty is clear in modern data. The poorest countries in the world are almost all former colonies, many in Sub-Saharan Africa, and many have experienced conflict or instability (WID, 2024; Oxfam International, 2025). This shows how long-lasting the effects of colonial systems can be.

2.2. Natural conditions and inequality in the Americas

Another explanation comes from Stanley Engerman and Kenneth Sokoloff (2002), who studied differences between North and South America. They argue that culture or religion is not the main reason for different development paths. Instead, what mattered most were the initial conditions, such as climate, natural resources, and population (Engerman & Sokoloff, 2002).

In places suitable for crops like sugar or for mining, such as Brazil and much of South America, economies were built on plantations and slave labour. This led to extreme inequality, with wealth and power held by a small elite (Engerman & Sokoloff, 2002). In contrast, North America had a climate and land better suited to small-scale farming. This led to a more equal distribution of land and opportunities.

These early differences had long-term effects. Societies that started with high inequality were more likely to create systems that favoured the rich, giving them more political power and economic advantages. This influenced decisions about voting rights, education, and land ownership, which reinforced inequality over time (Engerman & Sokoloff, 2002). As a result, the gap created in the early colonial period continued for centuries and is still visible today.

2.3. Path dependence and the persistence of colonial arrangements

Both the ideas of Acemoglu and his co-authors, and Engerman and Sokoloff, are based on a shared concept called path dependence. In simple terms, this means that choices made in the past continue to shape what happens in the future. Once a country starts on a certain path, it becomes harder to change direction over time. Early decisions about institutions and power can create patterns that reinforce themselves and are difficult to reverse (Acemoglu et al., 2001; Engerman & Sokoloff, 2002).

In countries that began with extractive or highly unequal systems, powerful groups had strong reasons to keep things the same. They often used political and legal systems to block changes that could give more people access to wealth and opportunities. Engerman and Sokoloff show how this worked in practice. In Latin America, where inequality was very high, governments often did not invest in basic education for everyone. In contrast, in countries like the United States and Canada, where societies were more equal early on, public education expanded quickly in the 1800s (Engerman & Sokoloff, 2002). These early differences in education led to long-term effects. Countries that invested more in people's skills and knowledge became more productive and wealthier over time. Those that did not fell further behind. This created lasting gaps in income and development that still exist today.

2.4. Modern effects: debt, capital outflow, and reparations

The economic effects of colonialism are still visible today through ongoing global systems. Many of the world's poorest countries send more money abroad than they receive from foreign investment. This means they have less money to spend on important areas like infrastructure, healthcare, and education (WID, 2024). In many ways, this resembles the old colonial system, where wealth was taken out of colonies, even though today it happens through financial systems rather than direct control.

Debt is another major issue. Many poorer countries spend a large part of their government budgets paying interest on loans instead of investing in development. In some cases, this takes up a very large share of national income, making it even harder for these countries to grow (WID, 2024).

There have also been increasing calls for reparations and recognition of the harm caused by colonialism. For example, a 2025 report by Oxfam, Takers Not Makers, argues that the gap between rich and poor countries cannot be understood without considering the long history of resource extraction and unequal systems. It also suggests that former colonial powers should take responsibility for helping address these lasting effects (Oxfam International, 2025). Although the idea of reparations is still debated and politically sensitive, there is strong agreement among researchers that colonial history has had clear and measurable effects on how wealth is distributed across countries today (Acemoglu et al., 2001; Oxfam International, 2025).

3. Structural mechanisms reproducing inter-country inequality

While the previous section showed that inequality between countries has strong historical roots, it is not just a problem of the past. Today's global systems, especially in finance, governance, and trade, continue to maintain and sometimes even worsen the gap between rich and poor nations. This section looks at four main ways this happens: unequal power in global institutions, unfair trade rules, the burden of national debt, and differences in technology and production capacity.

3.1. Unequal power in global governance

The global financial system was created during and just after the colonial period. Institutions like the World Bank and the International Monetary Fund (IMF) were founded in 1944, when many countries in what is now called the Global South were still under colonial rule. As a result, these countries entered the system at a disadvantage (Global Inequality Project, 2025).

Power in these institutions is mainly based on how much money a country contributes, not on its population. This means richer countries have much more influence. For example, the G7 countries hold a large share of voting power despite representing a small part of the world's population (Tricontinental, 2025). This allows them to shape global financial rules in ways that often benefit themselves.

There are also long-standing traditions that reinforce this imbalance. The head of the World Bank is usually from the United States, while the head of the IMF is typically European. This limits the role of poorer countries in leadership positions (London School of Economics, 2026).

This imbalance has real effects. When countries borrow money from the IMF, they often have to follow strict conditions. In the 1980s and 1990s, many West African countries had to reduce spending on education and healthcare as part of these agreements. While these policies were meant to stabilise economies, they often weakened important public services and slowed long-term development (Positive Money, 2024).

3.2. Unequal trade rules and dependence on raw materials

In theory, international trade can help poorer countries grow. In reality, the system often benefits richer, industrialised countries more. Many developing countries rely heavily on exporting raw materials or simple goods, which bring in less profit than manufactured products or services. A large number of the world's poorest countries depend on commodity exports (UNCTAD, 2024). This creates problems because prices for these goods can change quickly and unpredictably. When prices fall, these countries lose income and face economic instability.

At the same time, poorer countries make up only a very small share of global exports, and this has not improved much in recent years (UNCTAD, 2026). Even though there are international agreements meant to support them, the results have been limited.

Recent changes have made things worse. In 2025, some major economies increased tariffs, and these higher trade barriers affected poorer countries the most. In many cases, these countries now face higher tariffs than richer nations, which have more power to negotiate better deals (UNCTAD, 2026).

This shows a clear imbalance: wealthy countries can use their economic strength and political influence to get favourable trade terms, while poorer countries have far less ability to do so.

3.3. Sovereign debt and financial pressure

National debt is one of the clearest ways in which inequality between countries continues and grows. When poorer countries cannot raise enough money through taxes, they borrow from outside sources. However, they often have to pay high interest rates because lenders see them as risky. This risk is linked to deeper economic problems that come from the historical and structural issues discussed earlier.

Once countries take on debt, they must spend large parts of their national income on paying it back. This leaves less money for important areas like schools, hospitals, and infrastructure, the very things needed for long-term development. More than half of low- and middle-income countries now spend about one third of their tax income on debt payments, leaving very little for public services (Carnegie Endowment, 2024).

The effects on people are serious. For example, in Pakistan, only about 1% of children from the poorest families complete secondary school, while in countries like Canada, nearly all children do (Global Governance Reimagined, 2025). This shows that debt is not just an economic issue, it also affects life chances across generations, limiting education and future opportunities in poorer countries.

3.4. The gap in technology and economic capacity

Another major reason inequality continues is the difference in countries' ability to produce goods and services. This includes access to technology, education, infrastructure, and strong institutions. These factors decide how well a country can create economic value and grow its economy.

For many developing countries, it is already difficult to access finance for trade and investment. Global uncertainty and high interest rates make borrowing even harder, which reduces investment and slows growth even further (UNCTAD, 2024).

There is also a growing digital divide. As the global economy becomes more based on technology and services, countries without strong digital infrastructure or skills are falling further behind. Least developed countries make up less than 1% of global services exports, and their growth in this area has been very slow compared to the global average (UNCTAD, 2026).

This shows a worrying trend: without active support, poorer countries risk being left out of the modern digital economy, which would widen the gap even more.

These four factors, unequal global decision-making, unfair trade systems, heavy debt burdens, and unequal access to technology, work together as a connected system. Each one makes it harder for poorer countries to grow. Slow growth then reduces their influence in global institutions, which in turn keeps the rules biased against them. This cycle reinforces itself over time. The next section looks at what these ongoing patterns mean for countries and people around the world.

4. Consequences of inequality between countries

The effects of inequality between countries go far beyond money. Although the income gap between rich and poor nations is already a serious problem, it also leads to wider effects on politics, safety, health, and education. These effects then make inequality even worse, creating a cycle where the results of inequality become new causes of it. This section looks at four main consequences: weaker democracy, political instability and conflict, loss of skilled workers, and long-term limits on human development.

4.1. Weakening of democracy and rise of authoritarian leaders

One of the most studied effects of inequality is that it can weaken democratic systems. A major study published in 2025 in the Proceedings of the National Academy of Sciences found strong evidence that countries with higher income inequality are more likely to elect leaders who weaken democratic rules and institutions (Rau & Stokes, 2025). Even rich and long-established democracies can be affected if inequality becomes high enough.

One key reason for this is political division. When societies are strongly divided, people become more willing to accept leaders who ignore or weaken institutions like the courts, the press, and oversight bodies. Leaders can take advantage of these divisions by appealing to frustration and blame, which further increases social tension (Rau & Stokes, 2025). In this way, inequality is not just a background condition, it can actively help create political environments where authoritarian-style leaders gain support. Examples such as Venezuela, Turkey, and Hungary show how democracies can gradually weaken over time and move toward more authoritarian systems.

On a global level, recent reports show a worrying trend. Between 2019 and 2024, many countries experienced declines in democratic freedoms, especially in areas like freedom of the press, freedom of speech, economic equality, and access to justice (International IDEA, 2025). These declines are most common in places where inequality is already high, showing a strong connection between economic inequality and democratic decline.

4.2. Political instability, conflict, and populism

Inequality between countries also contributes to wider global instability. Countries that are left out of global economic growth are more likely to face internal conflict, weak government systems, and social unrest. These problems make development even harder and can also affect nearby regions and the wider world.

A global risk report in 2025 identified inequality as one of the most important and connected global risks. It can both cause other problems and be made worse by them, making it central to global instability (World Economic Forum, 2025). In wealthier countries, inequality between countries has also contributed indirectly to the rise of populist politics. As industries moved from richer countries to lower-wage economies, many workers in industrialised countries experienced slower wage growth or job losses. This created frustration and a sense that the economic system was not working for them.

In recent elections around the world, many voters have moved away from traditional political parties and supported more extreme or anti-establishment options. This reflects growing dissatisfaction with how governments handle inequality, migration, and global change (Vision of Humanity, 2025). Overall, these patterns show that the effects of inequality between countries are not limited to poorer nations. They also affect political stability and social trust in richer countries, showing how interconnected the global system has become.

4.3. Brain drain and health impacts of inequality

One clear and measurable result of inequality between countries is brain drain, which is when skilled workers such as doctors, nurses, engineers, and scientists leave poorer countries to work in richer ones. This is a major problem in global health. When trained medical workers leave developing countries, the healthcare system in those countries becomes even weaker. This increases the gap in health outcomes between rich and poor nations (Razin, 2025).

The scale of the issue is very large. Rich countries have many more healthcare workers per person than poor countries. This is caused by several factors, including fewer training opportunities, poor working conditions, and stronger incentives for workers to move abroad (UN DESA, 2024). The health impact is serious. For example, people born in Malawi live, on average, about 32 years less than people born in Japan (UN DESA, 2024). This shows how inequality between countries can directly affect life expectancy.

Brain drain is also an economic problem, not just a health issue. Poor countries spend public money to train doctors and other skilled workers, but many of them leave to work in richer countries where salaries and conditions are better. Once they leave, they usually stop paying taxes in their home country. This means the country loses both its investment in education and the future economic benefit of those workers (Razin, 2025). In effect, this creates a flow of skilled workers and public investment from poor countries to rich countries, making it even harder for poorer nations to improve their own systems.

4.4. Long-term human development and inequality between generations

The effects of inequality are not only felt today, they also continue into the future. When poor countries have to spend large parts of their budgets paying debts, they have less money for schools, hospitals, and infrastructure. This means children grow up with fewer opportunities.

Over time, this creates a cycle: each generation grows up with fewer resources and fewer chances to improve their situation. Poverty is then passed from one generation to the next, not just through income, but through limited access to education, healthcare, and basic services (Carnegie Endowment, 2024).

This helps explain why it has been so difficult for poorer countries to “catch up” with richer ones, even after many years of development efforts. Although most people recognise that the gap between rich and poor countries is a serious problem, this awareness has not led to enough change in global systems to solve it (Pew Research Center, 2025). The reason is that many of the causes of inequality are built into international systems, trade rules, and debt arrangements that are difficult to change.

These consequences are connected and reinforce each other. Inequality weakens democracy, which reduces the ability of poorer countries to push for fairer global rules. Political instability reduces investment and slows growth. Brain drain removes skilled workers who could help improve systems. At the same time, poverty continues across generations, making it even harder to escape the cycle. The next section will look at possible policy responses and their limitations.

5. Policy responses and their limits

Awareness of the deep causes and wide effects of inequality between countries has led to many proposed solutions. These focus on global institutions, debt systems, trade rules, and ideas of fairness for past harm. This section looks at the main proposals and explains both their potential benefits and their limitations.

5.1. Reforming global institutions

One of the main long-term solutions is to change how global economic institutions are run, especially the International Monetary Fund (IMF) and the World Bank. As shown earlier, these organisations give most decision-making power to rich countries, while poorer countries have much less influence even though they rely more on their support.

Some proposals suggest small changes to voting systems. Others call for bigger reforms, such as requiring both a majority of countries and a majority of financial shares to approve major decisions. This would give smaller and poorer countries more power in decision-making (Atlantic Council, 2023).

However, progress has been very slow. Since 2008–2010, there have been only small changes in voting power, despite long negotiations (Vestergaard & Wade, 2024). The main problem is political: countries that already have power would need to agree to give some of it up. This makes reform very difficult. Even so, reform is important not only for fairness but also for stability. If poorer countries feel excluded from global systems, they may lose trust in them, which could weaken international cooperation overall (Global Inequality Project, 2025).

5.2. Debt relief and debt restructuring

A more immediate solution discussed by many experts is reducing or restructuring the debt of poorer countries. In 2024, developing countries owed very large amounts of external debt, and global economic uncertainty has made borrowing more expensive. This leaves less money for essential services (UNCTAD, 2025). In the poorest countries, a growing share of income is spent on paying debts instead of investing in health, education, and development. This directly limits progress in reducing inequality between countries.

Several solutions have been suggested. These include restructuring debt payments, swapping debt for investments in education or climate projects, and removing extra charges on heavily indebted countries (UNCTAD, 2025). Research also shows how powerful debt relief could be. Even a very small share of global debt payments could significantly reduce poverty levels. For example, studies suggest that redirecting a small portion of debt payments could lift over 100 million people out of poverty (Global Governance Reimagined, 2025). Despite this, action has been limited.

Although many countries agree that reform is needed, they have struggled to reach binding agreements that would actually change the system.

5.3. Trade reform and support for industrial development

Another area of reform focuses on global trade rules. Many poorer countries remain dependent on exporting raw materials, which limits their ability to grow. Proposed solutions include better access to markets in richer countries, changes to intellectual property rules to allow more technology sharing, and more freedom for developing countries to support their own industries (WTO, 2024).

In the past, today's rich countries often used policies like subsidies and trade protection while they were developing. However, these tools are now often restricted for poorer countries under current trade agreements.

Recent international agreements have promised to support fairer trade and better opportunities for developing countries (UN DESA, 2024). However, in practice, the results have been limited. The share of world trade controlled by the poorest countries has changed very little over many years (UNCTAD, 2026). This suggests a gap between global promises and real outcomes, showing that formal agreements alone have not been enough to remove deeper structural barriers.

5.4. Reparations, recognition, and historical justice

Another important but controversial area of debate is about historical justice. This idea focuses on whether rich countries, especially former colonial powers, have a responsibility to make up for the long-term damage caused by colonialism. As discussed earlier in the paper, a large part of today's inequality between countries can be linked to colonial systems that extracted wealth and created unequal institutions. Because of this, some argue that it is not enough just to explain history, it also raises questions about responsibility today.

Some organisations, such as Oxfam in a 2025 report, have called for official recognition of this history and for reparations from former colonial powers. Some governments in the Global South have also raised similar demands in international discussions (Oxfam International, 2025). However, this idea is highly debated. There are practical problems, such as how to calculate what should be paid, who should pay, and how payments would work. There is also strong political resistance in many richer countries. Even so, the idea has become more accepted in academic discussions. Research on colonial institutions, including the work recognised by the Nobel Prize awarded to Acemoglu and Robinson, has strengthened the argument that colonialism has had long-term economic effects that are still visible today (Papaioannou, 2025).

5.5. Limits of reform and political challenges

It is also important to recognise the limits of all these proposed solutions. While many reforms sound possible in theory, they are difficult to achieve in practice because of political interests. Changing global institutions would require wealthy countries to give up some of their power, which they are often unwilling to do. Debt relief is also difficult because lenders worry about setting a precedent where debts may not be repaid. Trade reforms face resistance from industries and workers in richer countries who may be affected by increased competition. Reparations are even more politically sensitive and are rarely supported by governments in former colonial states.

At the same time, progress on global development goals has been slow. With only a few years left until the 2030 deadline, only about one-fifth of the UN Sustainable Development Goals are currently on track (United Nations Sustainable Development, 2025). This shows a large gap between international promises and real progress. Overall, this suggests that the main challenge is not only technical, but political. Reducing inequality between countries would require a major shift in how power and resources are shared between states. At the moment, the global system is not well designed to make changes of this scale easily.

6. Conclusion

This paper has examined inequality between countries as something that is deeply shaped by history and by ongoing global systems. It is not just a random gap in wealth, but a long-term pattern with major effects on politics, society, and economic development. Starting from the fact that all of the world's poorest countries are former colonies, the paper showed how global inequality began during the colonial period. European powers created different types of systems in different regions. In some places, they built more stable institutions, while in others they created systems focused on extracting resources. These early differences have had long-lasting effects (Acemoglu et al., 2001).

Research by Acemoglu, Johnson, and Robinson, along with Engerman and Sokoloff, shows that these early institutions still matter today. Because of path dependence, early systems tend to shape future development, making it difficult for countries to fully change direction even many years later (Acemoglu et al., 2001; Engerman & Sokoloff, 2002). The paper then showed that inequality is not only historical. Today, global systems continue to reproduce these gaps. This happens through unequal power in institutions like the IMF and World Bank, unfair trade rules, heavy debt burdens, and differences in access to technology and skills (UNCTAD, 2024; Global Inequality Project, 2025). The effects of this system go beyond economics. Inequality between countries contributes to weaker democracies, political instability, the loss of skilled workers through migration, and long-term limits on education and health (Rau & Stokes, 2025; World Economic Forum, 2025; UN DESA, 2024). Together, these effects make it harder for poorer countries to catch up.

The paper also has some limitations. It simplifies a very complex topic, and there is still debate among researchers about how exactly colonial history connects to present-day outcomes. Data from poorer countries is also often incomplete, which makes precise measurement difficult. In addition, the paper focuses mainly on differences between countries, while inequality within countries is also important and connected to these issues.

Looking to the future, two major challenges may shape how inequality between countries develops. The first is climate change, which is likely to affect poorer countries more severely even though they contributed least to the problem. Many of these countries also have fewer resources to adapt. The second is rapid technological change, especially in artificial intelligence and digital technology. Countries that have strong infrastructure and education systems may benefit the most, while others risk falling further behind if they cannot access or use these technologies effectively (UNCTAD, 2024). Overall, the future of global inequality will depend on whether international cooperation can address these challenges. Without effective action, the gap between rich and poor countries may continue to grow.

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