The Relationship Between Poverty and the Wealthy

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ABSTRACT

The wealth accumulated by affluent individuals transforms into elevated and extensive consumption, ultimately driving market demand expansion and effectively propelling global GDP growth, thereby providing more employment opportunities. This work aims to quantitatively analyse and summarise the contributions made by wealthy individuals to socio-economic development, thus to extend and expand the discussion regarding how the investments and consumer behaviors of established businessmen bring benefits to the general populace, as well as its limitations in terms of social inequalities and disparities across nations or regions.

Keywords: *Economic growth, Disparity between rich and poor, Social inequalities and disparities.*

1. INTRODUCTION

Successful business people, when making their money, tend to be more willing and skilled at investing their resources, actively seeking opportunities to expand and diversify their business portfolios (Black and Davidai 2020). Investments by wealthy investors and business owners in research and development can drive technological advancements and employment, which will enhance productivity in the global value chain (Mouzas and Bauer 2022) and boosting the development of the global economy, ultimately benefiting other people. Meanwhile, it is aimed to quantitatively analyse and summarise the contributions made by wealthy individuals to socio-economic development, thus to extend and expand the discussion regarding how the investments and consumer behaviors of established businessmen bring benefits to the general populace.

2. ANALYSIS AND DISCUSSION

Wealthy individuals can indeed make significant contributions to GDP growth through their earning and spending activities, which in turn can indirectly boost employment rates, benefiting the general public (Ayyagari, Beck, and Demirguc-Kunt 2007). This argument can be supported by the classical economic theory known as Okun's Law shown in “Figure 1” (Tar ń 2023).

$$\Delta U = -\beta(\Delta Y - \overline{Y})$$

Where:

- ΔU is the change in the unemployment rate.
- ΔY is the change in real GDP.
- $\overline{Y}$ is the potential GDP growth rate.
- β is the Okun's coefficient, which indicates the responsiveness of the unemployment rate to GDP growth.

Figure 1 Okun's Law.

First discovered and named by the American economist Arthur Okun (1962), Okun's Law reflects the changes in the unemployment rate and the rate of economic growth during the cycle of economic development. The basic meaning of Okun's law is that if the actual growth rate of GDP decreases by 2 per cent in relation to the potential growth rate of GDP, then the unemployment rate will increase by 1 per cent; if the actual growth rate of GDP increases by 2 per cent in relation to the potential growth rate of GDP, then the unemployment rate will decrease by 1 per cent. The potential growth rate of GDP is the maximum output that a country's economy can produce when the price level is relatively stable.

Assume:

- The potential GDP growth rate ($\bar{Y}$) is 2.5%.
- The actual GDP growth rate (ΔY) is 3.5%.
- The Okun's coefficient (β) is 0.4.

Using Okun's Law:

$$\Delta U = -0.4(3.5\% - 2.5\%)$$
$$\Delta U = -0.4(1\%)$$
$$\Delta U = -0.4\%$$

This means the unemployment rate would decrease by 0.4 percentage points if the actual GDP growth rate exceeds the potential GDP growth rate by 1 percentage point.

In summary, Okun's Law offers a valuable framework for understanding and predicting the relationship between the unemployment rate and GDP (Tarín 2023). However, its application must be carefully analysed and assessed in the context of specific situations.

The manifestation of successful business people in social life is their mastery and control over the business entities they own (Ayyagari, Beck, and Demirguc-Kunt 2007). As owners or major investors in a company, wealthy individuals can offer crucial financial backing (Uttama 2021). This includes providing startup capital, funding for research and development, and resources for market expansion (Shen et al. 2020). Their support ensures the company has the necessary resources to operate effectively, innovate products and services, and adapt to market changes (Mamman and Valei 2023).

Relevant data provides an in-depth analysis of the dynamic evolution of the top ten companies by market capitalization in the global stock market, spanning nearly four decades from 1980 to 2019. It clearly illustrates the fluctuations and changes of these technology giants, energy companies, and financial institutions within the global economic landscape (Yang 2023). Moving to the right side, covering data from 2000 to 2019, the researchers observe the ascent of technology giants like Microsoft, Google, and Apple. These companies have quickly become some of the highest-valued globally due to their innovative technologies and business models.

The world's GDP has received substantial contributions from major tech giants such as Meta, Microsoft, Amazon, Google (Alphabet), and Apple, collectively known as FAAMG, primarily due to their vast revenue, widespread global presence, and profound impact on multiple industries (Mićić 2017). As shown in “Figure 2”, the combined revenue of the top five companies (as of the year 2019) accounts for 1.52% of the 2023 world GDP, based on the data sourced from the World Bank Development Report (2023).

The FAAMG companies not only directly employ millions of people but also foster numerous indirect employment opportunities through their expansive ecosystems, encompassing digital marketing, content creation, logistics, manufacturing, app development, IT services, and various other sectors (Stefan 2023). Their profound economic impact stems from their substantial revenue, considerable R&D investments, and widespread market influence (Csomós 2017).

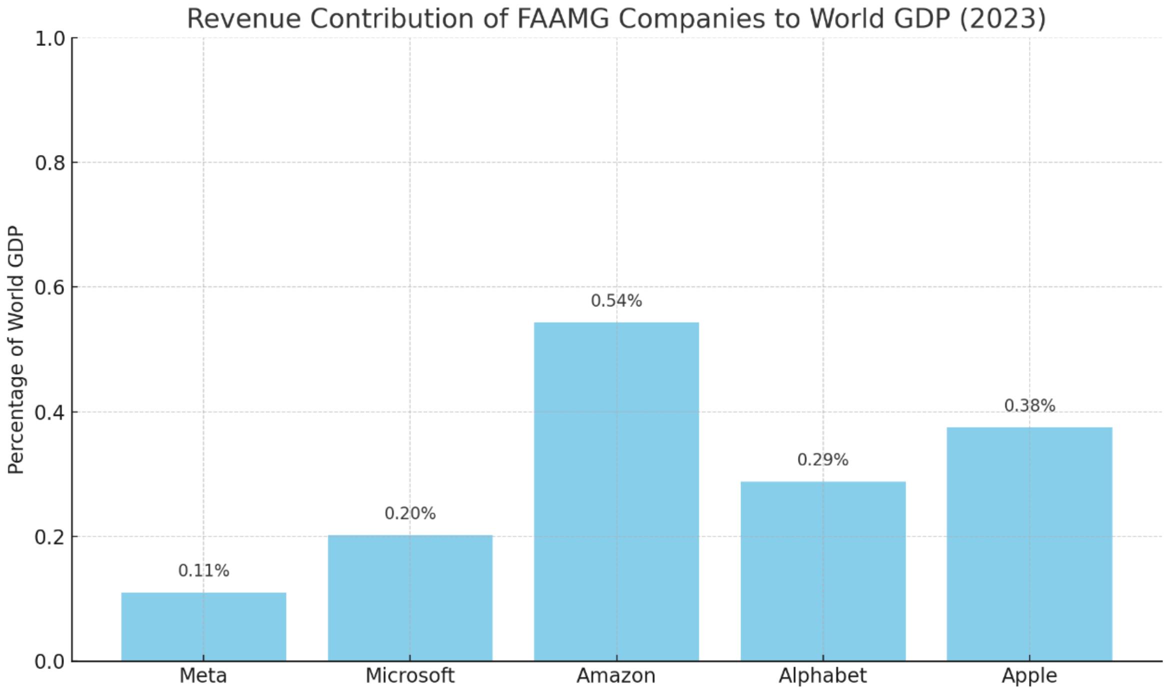

Figure 2 Illustration of the revenue contribution of Meta, Microsoft, Amazon, Google (Alphabet), and Apple to the world GDP for the year 2023.

a Source: worldbank.org

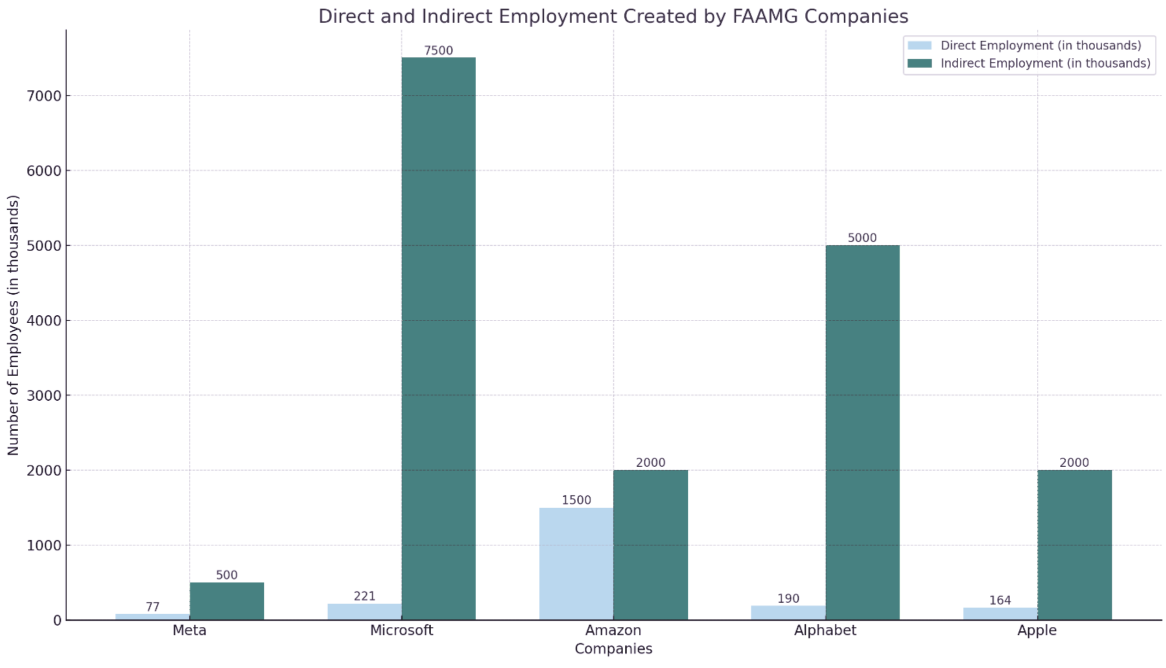

Figure 3 Employment created by the FAAMG companies.

a Source: data.worldbank.org

The direct and indirect employment created by FAAMG companies (Meta, Microsoft, Amazon, Alphabet/Google, and Apple) are shown in the "Figure 3". This visual representation highlights the significant workforce impact of these companies both directly and through their extended ecosystems. By supporting vast ecosystems, these companies create jobs not only in marketing, logistics, manufacturing, and software development but also in other areas (Sheng 2022). The economic ripple effect they generate significantly boosts employment opportunities globally (Bergqvist and Choi 2023).

As GDP grows, a country's economic strength increases, leading to potential income growth for the general population (Brancaccio, Garbellini, and Giammetti 2018). This enables people to enjoy a higher quality of life and better social welfare (Miladinov 2023). Economic growth means more goods and services will be available in the market (Deme and Mahmoud 2020). People will be able to purchase more consumer products and enjoy a greater variety of services, thus enhancing their quality of life. Furthermore, governments will have more resources for infrastructure development and public service provision (Kim 2016). This creates a more convenient and comfortable living environment for the general population (Feldstein 2017).

A higher employment rate means more job opportunities for the common people (Snyman 2014). This helps reduce unemployment rates, lessen social instability, and improve living standards, while providing more people with stable income sources, ensuring their basic living needs are met (Tunstall 2023). Stable income for general public helps reduce poverty and inequality, enhancing overall social welfare (Brancaccio, Garbellini, and Giammetti 2018). Employment not only provides income but is also a crucial path for personal career development (Dellink et al. 2017). Through work, people can accumulate experience and improve skills, laying the foundation for future career advancement (Etindele Sosso et al. 2022).

The contributions of FAAMG companies (Meta, Microsoft, Amazon, Google (Alphabet), and Apple) to the global value chain are significant and multifaceted (Stefan 2023). These tech giants play critical roles in shaping technology, business practices, and economic activities worldwide (Sheng 2022).

“Figure 4” shows their contribution to the global value chain by driving innovation, supporting economic growth, creating jobs, and setting industry standards. Their influence extends across various sectors, including technology, retail, logistics, advertising, and cloud computing, making them integral to the global economy (Ambos et al. 2021).

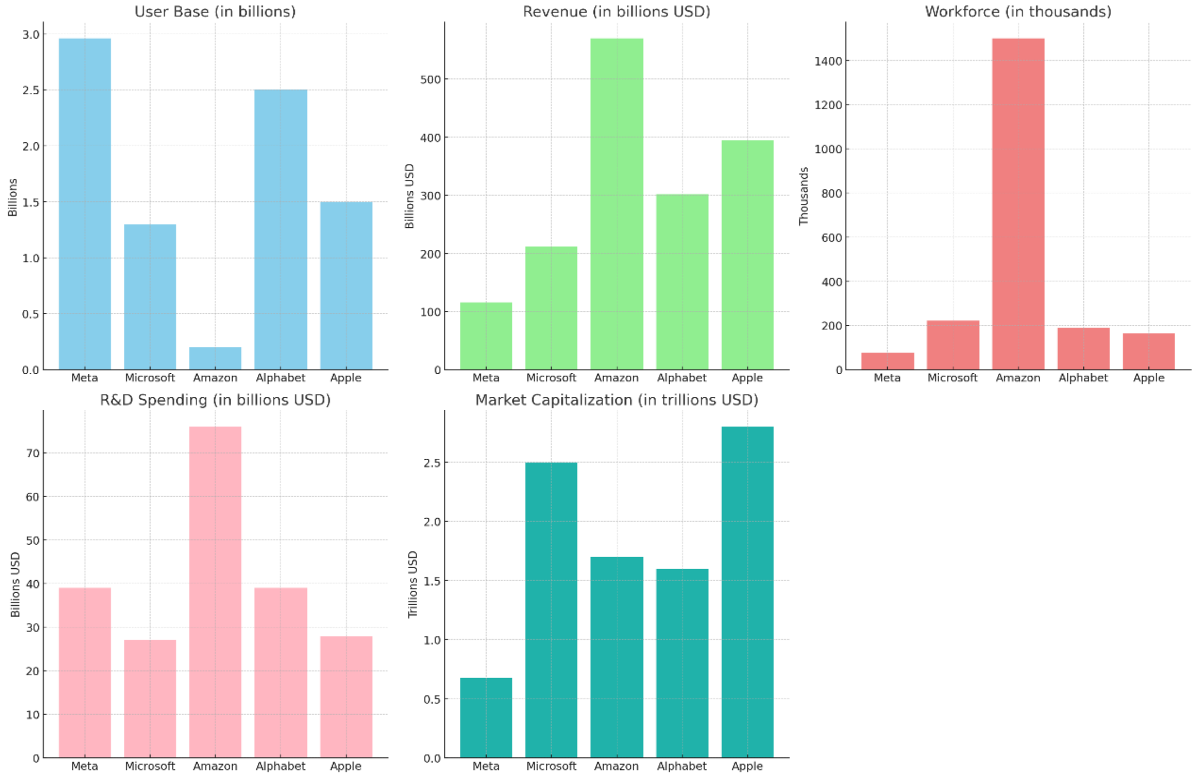

Figure 4 The contributions of Meta, Microsoft, Amazon, Google (Alphabet), and Apple to the global value chain.

a Source: tradingeconomics.com

However, it is important to note that the economic activities of the wealthy do not always result in positive social impacts (Caspersz et al. 2022). Sometimes, their investments and consumption can lead to the misallocation of resources, environmental degradation, or increased social inequality (Krishnan, De Marchi, and Ponte 2023). Therefore, governments and society should take measures to ensure sustainable and equitable economic development, so that more people can benefit from economic growth (Lang, Ponte, and Vilakazi 2023).

Some data details changes in global inequality from 1960 to 2017, illustrated by per capita GDP (in constant 2010 USD) across various countries and regions. Different colours in the chart represent different data series, corresponding to developed countries and developing countries. It is evident that the per capita GDP in most developed countries shows a steady upward trend, indicating their increasing economic strength. In contrast, some developing countries exhibit more fluctuating or slower-growing per capita GDP, reflecting the economic development challenges these regions face.

It is important to note that while per capita GDP is a crucial indicator of a country or region's economic performance, it does not directly equate to living standards or income equality (Aghaei and Lin Lawell 2022). Therefore, it is necessary to consider multiple factors to gain a more comprehensive understanding of the changes in global inequality trends (Gunasinghe et al. 2020). Developed countries often have more efficient resource allocation and production, enabling them to generate higher economic value (Chang, Gupta, and Miller 2018). In contrast, there may be significant room for improvement in resource utilization and production efficiency in developing countries (Aghaei and Lin Lawell 2022). The economic policies and institutional environments of developed countries are typically more mature and stable, aiding in promoting economic growth and reducing inequality (Smith 2021). Conversely, in developing countries, policy and institutional deficiencies may be key factors leading to economic volatility and slow growth (Yunita et al. 2023).

Based on the above discussion , GDP growth does not necessarily promote equitable social development. It may, in fact, exacerbate social inequality. Global inequality is a complex and multi-dimensional issue (Caspersz et al. 2022). Addressing it requires a multifaceted approach, including strengthening international cooperation, reforming policies and institutions, and promoting educational equity (Lang, Ponte, and Vilakazi 2023).

Some data provides a detailed depiction of the trends in the number of people living in poverty outside of China from 1981 to 2013. The blue line clearly shows the annual changes in the number of impoverished people (measured in millions). It indicates that the data is based on the 2011 Purchasing Power Parity (PPP) standard, referring to those with a daily income of less than $7.40. Although people can observe a significant downward trend in the number of people living in poverty over time, the global poverty issue has not been resolved by the GDP growth driven by the investments and consumption of the wealthy (Misini and Badivuku-Pantina 2017).

The investments of the wealthy are primarily concentrated in high-end markets or specific sectors, often neglecting impoverished areas (Oishi et al. 2022). This imbalance in investment can exacerbate the wealth gap (Brueckner and Lederman 2018). Therefore, encouraging the wealthy to invest in socially responsible projects, such as education, healthcare, and infrastructure, is crucial for alleviating poverty (Bilan et al. 2020).

The consumption patterns of the wealthy can also impact resource allocation (Zeb et al. 2014). If the wealthy engage in excessive consumption or pursue luxurious lifestyles, it may lead to an unfair distribution of resources, making it difficult for impoverished populations to access necessary resources and services (Juhásová et al. 2023). Thus, promoting sustainable and responsible consumption is essential for reducing poverty and fostering social equity (Misini and Badivuku-Pantina 2017).

3. CONCLUSION

In summary, wealthy and successful business people, through their business ventures and consumption, can effectively promote global GDP growth and deepen the integration of global value chains (Feldstein 2017), thereby creating more job opportunities and improving the income and living standards of ordinary people (Brancaccio, Garbellini, and Giammetti 2018).

In this work, it was demonstrated that the steady growth of global GDP and the increase in employment rates have profound impacts on the quality of life and future development of the general population (Stefan 2023). Improvements in these economic indicators will help create a more prosperous, stable, and equitable societal environment (Dellink et al. 2017).

Furthermore, the relationship between global poverty and the investments and consumption of the wealthy is dual-faceted (Kim 2016). On one hand, the investment and consumption behaviours of the wealthy can drive economic growth and create employment opportunities, aiding in poverty reduction (Lang, Ponte, and Vilakazi 2023). On the other hand, unbalanced investment and consumption patterns can worsen the wealth gap and lead to unequal resource distribution (Prados de la Escosura 2023). Therefore, encouraging the wealthy to engage in socially responsible investments and sustainable consumption is vital for addressing global poverty (Misini and Badivuku-Pantina 2017). Additionally, governments and international organizations should enhance policy guidance and regulatory efforts to ensure the fairness and rationality of resource distribution ultimately benefiting general populace (Bilan et al. 2020).

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