

Overcoming Poverty and Social Inequality in Third World Countries (Latin America, Africa)

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Summary

The relevance of the research is due to the fact that the issue of poverty is one of the most acute social problems of the beginning of the third millennium. The phenomenon of poverty is widespread in third world countries as well as it is observed in relatively developed countries. Poverty rates in Latin America are threatening. Consequently, the issue of social and economic inequality in these countries has become extremely acute. The purpose of the research: to identify the causes of poverty and social inequality and substantiate the main directions of poverty reduction in third world countries. The research methods: comparative analysis; index method; systematization; grouping; generalization. Results. The classification of the causes of poverty has been carried out and the directions of its overcoming in the countries of Latin America on groups of indicators have been defined, namely: 1) political; 2) economic; 3) demographic; 4) regional-geographical; 5) social; 6) qualification; 7) personal. Based on the Net Domestic Product indicator, a comparison of economic indicators of the studied countries has been carried out. It has been revealed that from 1990 to 2018 income inequality increased in 52 of 119 countries studied, and decreased in 57 states. Inequality has increased in the world's most populous countries, particularly China and India. In general, countries with growing inequality are home to more than two-thirds (71%) of the world's population. Trends in the distribution of income in the world have been investigated by applying the Gini index, the high level of which is observed in Latin America (Colombia 48,9%, Panama 46,1%, Chile and Mexico 45,9%). The forecast of the impact of the Covid-19 pandemic on this issue has been outlined; the ways of its impact on the economies of the countries have been studied. As a result of the study, the main directions and mechanisms of the strategy for poverty reduction and social inequality in the third world countries have been identified. The implementation of the poverty reduction strategy presented in this academic paper may have a positive impact on the economic situation of the population of Latin American countries.

Key words:

Poverty, Social Inequality, Poverty Reduction, Income Poverty Line, Income Distribution.

1. Introduction

In today's world, even in relatively developed countries, poverty is quite common, as well as in backward countries, such as Latin America, where almost 55% of the total number of people, living in its territory, are poor. The threatening dynamics of poverty in developing countries raises problems not only of economic but also of social and political nature.

Social inequality is one of the most pressing problems of our time. The works of numerous modern social scientists are devoted to the study of this issue; it occupies an important place in the programs of many political parties and movements in many countries around the world.

The considered issue of social inequality is so popular nowadays not only because it is a concentrated characteristic of a condition of a society as a whole, but also due to the fact that it acts as a catalyst for many other problems of social development, and is also an index of social justice of the society.

Social inequality is a complex and multifaceted phenomenon. Gender, territorial, age, class, etc. ones are all different images of social inequality. However, the social-economic inequality is the most interesting one; it is the most important topic in political discourse and the practical political sphere. Property inequality often generates or reinforces other types of inequality and raises the issue of the need to find other models, alternative to existing ones of the world order.

At the same time, addressing the causes of poverty, one can often see the influence of not only purely economic factors, but of cultural ones, which lie in the sphere of national mentality, ethnocultural and religious traditions. Accordingly, the problem of poverty is considered as a system one by modern science. Much attention is paid to this phenomenon at the level of the largest intergovernmental institutions (UN, World Bank, etc.), as well as great interest is given in the general scientific community in order to study the nature of poverty.

The purpose of the research is to identify the causes of poverty and social inequality and substantiate the main directions of poverty reduction in third world countries.

2. Literature Review

The issue of poverty has been studied by numerous social and philosophical scholars. Smith, Malthus and Ricardo, eminent economists, interpreted poverty as the result of the transition from traditional to industrial society [1].

According to the theory of social Darwinism, which became the basis of liberal ideology almost 200 years ago, poverty was considered a natural phenomenon that had to increase in line with the growth of social production. Spencer believed that poverty plays a significant role in the development of the individual, so this phenomenon is positive for the society [2]. Neoliberalism supporter Hayek shared Spencer's viewpoint, and believed that poverty was a natural phenomenon in the world that society needed to develop [3].

The World Income Inequality report illustrates how overall poverty is declining in absolute terms, and how structural poverty remains stable in relation to the total population [4]. Baudrillard points out that "the system is supported by its own logic and thus provides its ultimate goal. It is strengthening around a certain indicator of disequilibrium, that is, including, whatever the absolute amount of wealth, systematic inequality" [5].

Hawkins assumes that justice in societies with organic solidarity based on the division of labor and contract law is much more important than in societies with mechanical solidarity based on the domination of the collective consciousness. "As well as ancient people needed a common faith to live, we need justice. And we can be sure that this need will grow stronger" [6]. The essence of justice, from his point of view, involves the reciprocity and exact equivalence of goods and services exchanged by individuals and groups.

A liberal interpretation of the principle of social justice was developed by Rawls [7]. Formulating the basic principles of social justice, he returns to the idea of equality, namely: the first principle: everyone should have equal rights to the largest scheme of equal fundamental freedoms compatible with the same schemes of freedoms for others; the second principle states that social and economic inequalities should be such that they can be expected to benefit everyone and that everyone should have free access to status and positions. Trying to model the construction of a just society on the basis of the connection between rationality and morality, which does not clearly indicate the mechanisms of social justice implementation, Rawls constantly returns to the topic of legality: "Where we find formal justice - the rule of law and the fulfillment of acceptable expectations - we probably find real justice" [7].

Qureshi et al. in their scientific article have conducted research in order to understand how knowledge sharing and education can affect overcoming extreme inequality and poverty reduction [8]. Comte considered the division of labor a fundamental social fact, which is the main condition of social life. Social hierarchy, according to Comte, is determined by the natural, eternal and irresistible nature of functioning and development of the social system itself. Based on the above mentioned, he considered social equality an unnatural phenomenon [9].

Spencer solves the issue characteristic of classical Western sociology: how to ensure social order. His solution lies in the fact that this can be achieved through a certain interpretation and use of the principle of justice. Briefly speaking, this definite interpretation of justice consists in identifying the idea of justice and equality, expressed the demands of others through respect of people; combination of elements of egoism and altruism in justice; proportionality as a component of justice, etc. The understanding of justice is the core of this approach, namely: "Every person is free to do whatever he wants, if he does not violate the equal freedom of another person" [2].

Barbier has substantiated that South and East Asia, the Pacific region, and sub-Saharan Africa make up the majority of the world's poor rural areas in the coastal zone and have high levels of poverty. According to the results of his investigation the scholar has come to conclusion that promoting development in the coastal areas of these regions could reduce rural poverty to restore key coastal ecosystems, however, this requires additional policy action and investment in infrastructure [10].

Rao et al. have studied climate change and its effects on the living standards of vulnerable populations [11]. They have proposed the creation of new models that include social inequality and broad political mechanisms. Hallegatte and Rozenberg also believe that economic analysis of climate change does not take into account the problem of poverty. They note that rapid development can reduce the impact of climate change on poverty [12]. The Fosu's study has analyzed data on the transformation of economic growth to poverty reduction in developing countries, emphasizing the role of income inequality. The analysis showed that the growth of the average income in the country was the basis for both reducing and increasing poverty [13]. Kidd, Wapling, Bailey-Athias and Tran found that the life cycle system of social insurance transfers for people with disabilities had an overall positive impact on the lives of people with disabilities. As a result, the basic problems of this system that need to be solved in order to increase its efficiency have been identified [14].

Thus, the issue of poverty and social inequality is widely studied in terms of theoretical justification, interpretation of social and economic impact on the society. At the same time, there is a need for in-depth study of the causes and consequences of poverty and methods of overcoming it,

especially in third world countries, where indicators of social inequality and poverty are threatening.

3. Methods

The theoretical investigations of domestic and foreign scientists have been used in the academic paper, as well as works of authors and specialists who have studied the issue of poverty. By the way, materials of periodicals, data from open sources on the Internet have been also used.

The causes of poverty have been studied by the following groups of indicators, namely: 1) political; 2) economic; 3) demographic; 4) regional-geographical; 5) social; 6) qualification; 7) personal. The studied countries of Latin America have been divided into the same groups and strategic directions for poverty reduction in the third world countries have been determined.

The study was conducted using data from the following Latin American countries, namely: Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Guatemala, Uruguay, Mexico, Nicaragua, Panama, Peru. The calculations were made on the basis of the UN global income inequality database "Trends in income distribution in the world from 1990 to 2018", the results of the study "Social Panorama of Latin America" conducted by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). The comparison of economic indicators of the studied countries was carried out on the basis of the Net Domestic Product indicator (NDP). To assess economic inequality, the Gini Index has been used - a statistical indicator of the degree of stratification of the society in a country or region on a certain basis. Particular attention has been paid to the comparison of data between countries, the criteria of poverty within the concept of

human development, as well as the prosperity of certain social-demographic groups.

4. Results

Uneven distribution of material goods and services leads to inequality of economic welfare, which, in addition to the positive stimulus, has negative consequences. The negative consequences of inequality include the formation of such a level among a part of the population that does not allow satisfying even basic economic needs. The need to strengthen the role of the state in the formation of state policy in order to reduce poverty is especially acute. It has been revealed that in any country a high level of income inequality and opportunities is an obstacle to human development. In addition, these phenomena have an extremely adverse effect on the development of the economy, inhibiting its growth and cohesion of the society; they also limit the transformation of this growth into social progress.

The problem of social inequality is significant, both in fundamental and applied aspects. The growth of social stratification and inequality leads to an increase in social tensions in the society, especially in transitional periods of development.

Poverty as an economic category is a relationship, reflecting a set of characteristics of goods' production and services that meet the material and spiritual needs of human. Poverty, depending on its duration and the financial situation of a person or his family, can take various forms, namely: temporary poverty, stagnant poverty or destitution.

Poverty assessment involves the use of indicators that allow the most complete and reliable measurement of its prevalence (see Table 1).

Table 1: Classification of the causes of poverty

Causes	Features	Countries with typical causes of poverty	Division of the studied countries into groups
Political	Military conflicts; population migration	Mexico	Group 1
Economic	Unemployment; low wages and its delay; reduction of entrepreneurial activity	Brazil, Peru	Group 2
Demographic	Single-parent families and multi-member families; low natural population growth; weak positions in the youth labor market	Guatemala, Dominican Republic	Group 3
Regional and geographical	Regions with low economic potential; areas dependent on food supplies from the center	Uruguay, Panama	Group 4
Social	Old age; child homelessness; disability; lack of cultural and leisure	Chile, Nicaragua	Group 5
Qualifying	Low level of education; unavailability of education	Argentina	Group 6
Personal	Alcoholism; addiction; gambling addiction	Bolivia, Colombia	Group 7

According to the data presented, there are various causes of poverty, both external (military conflicts, regions dependent

on food supplies from the center, inaccessibility of education) and internal ones, which an individual can

overcome personally (alcoholism, drug addiction, gambling addiction).

Thus, poverty reduction involves combating such global problems of the population, as: social inequality, the inability to financially and spiritually meet the necessary needs of people, achieving a standard of living that is considered worthy in the society.

Economic investigations on comparing the economic performance of different countries tends to focus on gross domestic product (GDP). However, this indicator is only a small fraction for measuring national well-being. It cannot

adequately account capital depreciation, environmental degradation, rising crime or diseases.

Expenses are required for replacing worn out or obsolete capital in the process of producing goods and services in the economy. Vehicles, computers, roads and electrical systems must be repaired or replaced annually. This is called depreciation of capital or consumption of “fixed capital”; subtracting its value from GDP we obtain net domestic product (NDP), which is a more accurate indicator of the characteristics of the real economic situation than GDP. Fixed capital actually varies depending on time and country (see Table 2) [15].

Table 2: Trends in income distribution in the world from 1990 to 2018 (changes in the NDP)

	Africa	Africa	Latin America and the Caribbean	Europe, North America, Oceania and Japan	Total	Percentage of countries	Percentage of the total population
Increasing inequality	14	10	1	27	52	43,7	71
Reducing inequality	16	11	17	13	57	47,9	20,8
No trends	1	3	1	5	10	8,4	8,2
Total	31	24	19	45	119	100	100

In the given data it is possible to observe that in the period from 1990 to 2018 the income inequality increased in 52 countries from 119 countries which were investigated, and decreased in 57 of them. Inequality increased in the world’s most populous countries, particularly China and India. In general, countries with growing inequality are home to more than two-thirds (71%) of the world’s population.

Gini index is a statistical indicator of the degree of the society’s stratification in a country or region according to a certain basis. This index is also used to assess economic inequality. The Gini index varies from 0 to 1 (0-100%). The more its value deviates from zero and approaches one, the more income is concentrated in the hands of certain groups of the population (see Figure 1) [16].

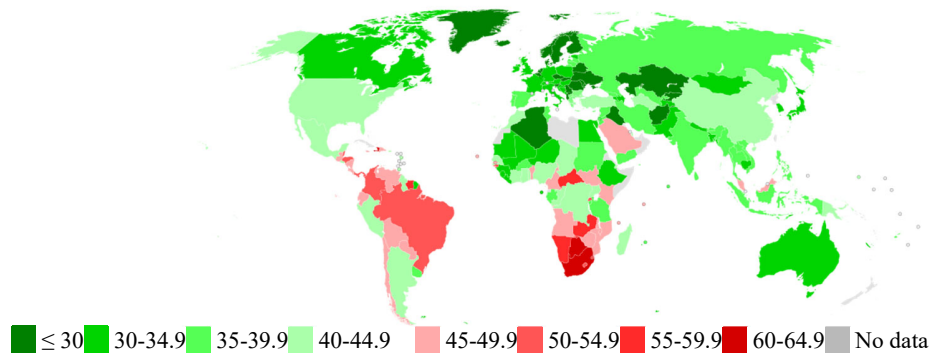


Fig. 1. Gini index on the distribution of national income of the world in 2018

Representative data for the analysis of income distribution for Latin American countries are shown in Figure 2.

Based on the data shown in the fig. 2, it can be concluded that the highest level of the Gini index is observed in Latin America (Colombia 48,9%, Panama 46,1%, Chile and Mexico 45,9%).

Thus, in the countries of the study region there are significant challenges connected with population

stratification. In particular, Latin Americans continue to experience high levels of poverty and unemployment, while inequality within racial groups is deteriorating. Forasmuch as social expenditures account more than half of the government’s budget in 2019, decisions must go beyond a simple fiscal expansion of current programs in order to focus on quality and stability of results.

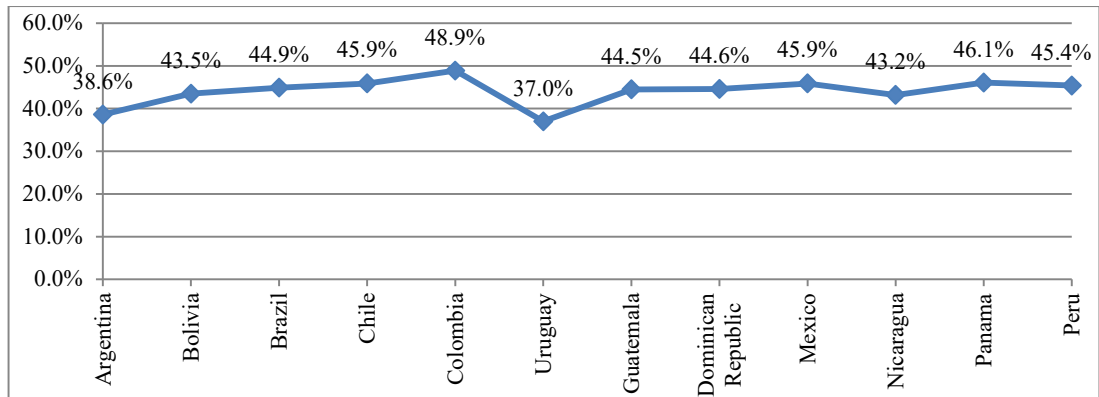


Fig. 2. Gini index on the distribution of national income of Latin American countries in 2018

According to a recent study conducted by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) entitled “Social Panorama of Latin America”, regression in the fight against poverty has been registered since 2015, despite the significant progress made between the beginning of the previous decade and the middle of this year.

According to the ECLAC report, Brazil and Argentina stand out in terms of poverty in South America; consequently, in the first country the overall poverty in the period from 2014 to 2018 increased to 4,3%, and in the second country in the period from 2017 to 2018 it increased from 18,7% to 24,4%, respectively.

The situation is more worrying when it comes to the change in extreme poverty in Brazil, forasmuch as in the period from 2014 to 2018 it increased by 11,8% per year, and in the period from 2008 to 2014 it decreased by 4%.

In Argentina, the poverty rate decreased by 1,4% from 2008 to 2014 and by 0,5% per year from 2014 to 2018, mainly due to the deterioration observed between 2017 and 2018.

The level of poverty, especially extreme, is much higher in rural areas (in 2018 the level of extreme poverty in rural areas is twice as high as the level of extreme poverty in urban areas); trends from 2014 to 2018 indicate an exacerbation of poverty in urban areas.

From 2014 to 2018, poverty and destitution increased by 2,7% and 3,2%, respectively, while in rural areas the same figures increased by 0,1% and 1,3%, respectively.

In terms of age groups, poverty and extreme destitution increased among the younger population between 2014 and 2018, especially among those between zero and 14 years old. The role of redistribution has been fundamental as a complement to economic growth, including poverty reduction in times of prosperity and preventing the growth of poverty in a deteriorating economic situation.

In the period from 2014 till 2018, the distribution effect prevailed in seven of the 13 Latin American countries that reduced poverty.

Overcoming poverty in Latin America requires not only economic growth but also distributive and proactive fiscal policies.

Covid-19 will have a devastating impact on the world economy and Latin America and the Caribbean will not be left out, as this effect will affect many sectors of the economy.

In 2019, growth in Latin America and the Caribbean was only 0,1%, and forecasts made in December indicated growth of 1,3% for 2020; however, they have been revised and will be much lower, taking into account the current situation.

Currently, the reduction in gross domestic product (GDP) in the region was -1,8, which could lead to an increase in unemployment by 10%. At the same time, from the total population of 620 million people, the number of poor will increase from 185 to 220 million, and the number of people living in extreme poverty can reach to 90 million.

COVID-19 will affect the region by reducing the economic activity of a number of major trading partners, such as China, which is the main market for Chile, Peru and Brazil; the region’s exports in this direction may fall to 10,7% in value.

It will also affect tourism, especially in the Caribbean countries. If the travel ban lasts one, two or three months, it will be reduced by 8, 17 and 25 percent in the region, respectively.

The entire Latin American territory will also be affected by falling commodity prices, especially for countries exporting raw materials from South America, and, finally, the fear of investment, which is already being felt by the sharp decline in stock indices in the region.

The pandemic also provides an opportunity to recall the benefits of multilateral actions. Policy coordination can support poor countries, whereas the asymmetry between advanced and developing countries becomes more pronounced.

The shift in emphasis from the problem of inequality to the problem of poverty has been also caused by the fact that in

the 1990s one of the most successful periods of the 20th century in the development of the world economy were distinguished by a further increase in the number of people living in extreme poverty (by less than 1 USD a day). Despite the fact that its share in the total population of the

planet decreased in 1987-1998 from 28,3 to 24,0%, the absolute number increased from 1,18 to 1,2 billion people. In order to overcome poverty in third world countries, we identify the main directions by groups, which have been represented in Table 1 (see Fig. 3):

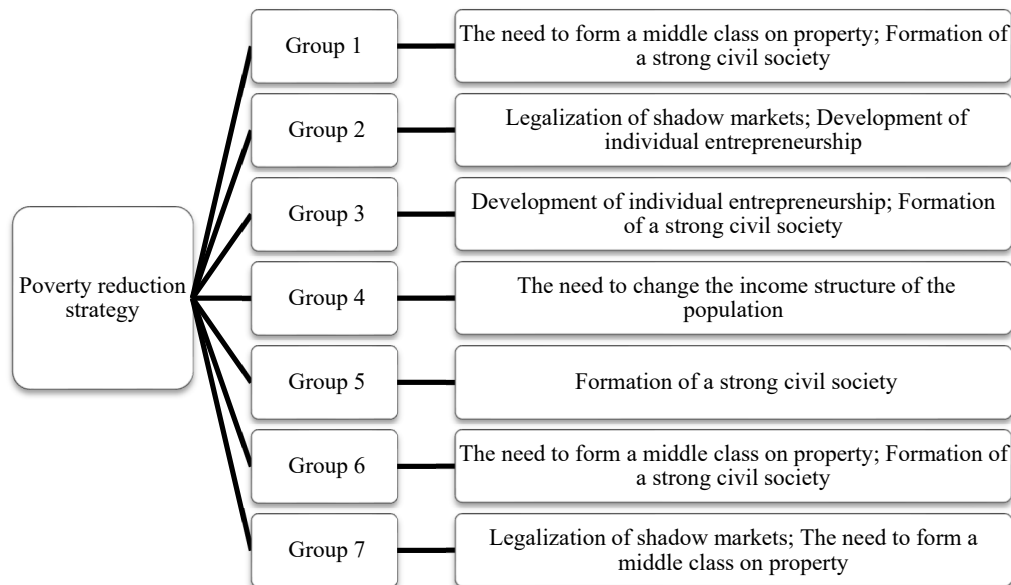


Fig. 3. Priority steps to combat poverty in the countries studied

In the economy of third world countries, many financial issues are not regulated by the state. Sources of income are not fixed at the legislative level. In third world countries (Latin America), the shadow market accounts a large share of household income. Taxes have a significant percentage of official income; consequently, people are reluctant to make their income legal. It is also necessary to change the structure of household income, preferring a multifactorial system, the existence of which is possible only with the formalization at the legislative level of their income's sources.

The development of society has led to the fact that the main part of it should be occupied by the middle class. The middle class is the part of the population that has alternative sources of income in addition to wages. One of the hallmarks of this class is property ownership. Entrepreneurship development provides the population with jobs; therefore, it is an effective means of combating poverty. Enterprises should have legislative support at national market, because there may be any risks in any countries. Currently, the most global risks of entrepreneurship are as follows:

- COVID-19;
- inefficiency of state interaction with business;
- lack of modern management technologies at the local level;

- lack of effective financial support for small business entities;
- the need to improve tax legislation.

In the course of formation of an active civil society, private entrepreneurship develops, the level of corruption decreases, which in turn leads to the creation of mechanisms for overcoming poverty in the society.

Thus, poverty is a global social phenomenon, the overcoming of which requires effective economic and social reforms; its implementation will improve the financial situation of the population of third world countries, and, therefore, increase the standard of living of the society as a whole.

5. Discussion

Poverty is a system of social-economic relations that operates in accordance with certain patterns, containing interdependent elements and connections. If we consider poverty as a phenomenon that is the result of economic processes, the unevenness in the economic state of the society is not able to fully characterize the determination of the reasons for the growth of this phenomenon [17].

Social inequality is inherent in any society at every stage of its development; it is a condition in which people have

unequal access to social benefits [18]. In other words, social inequality is a form of differentiation when people are in different situations, which, in turn, affects their lives chances and opportunities to meet needs.

Nowadays there are several scientific approaches to the application of methods for measuring poverty, based on which we can distinguish three main types, namely: absolute, relative and subjective poverty.

According to scientists' viewpoint, absolute poverty is the material security of people whose level is below the poverty line. This means that the individual is not able to meet their basic needs (food, housing, clothing, etc.) [19].

Subjects, who do not have the necessary physiological minimum, are in a state of absolute poverty [20]. A financial situation that meets vital needs, while not providing basic social needs, is called destitution. Lack of means is the financial condition of an individual who meets the physiological and social needs below the level that is acceptable in the society in which he lives [21].

The term 'relative poverty' characterizes the phenomenon in which the financial condition of the individual is lower than the poverty line, according to the share of average income of other members of the society. That is, the part of the population with the lowest income is considered the relatively poor one [22]. Based on this, the concept of relative poverty is a financial situation that does not meet living standards, acceptance in the society. The poverty line according to this concept is the level that meets the needs adopted in the social environment of certain groups of the society with certain wealth [23]. The concept of relative poverty, in contrast to absolute poverty, is a social phenomenon that cannot be overcome [24].

Subjective poverty is the financial condition of an individual or family, which they determine personally. In order to measure the level of poverty, a survey of members of the society concerning the level of low income is conducted. According to this approach, respondents' own assessment of the required level of minimum income is closely related to their actual level.

The subjective concept of poverty differs from the absolute and relative ones by the fact that the poverty line is determined by the subjects' own assessments [25].

Poverty level is also measured through methods that are not based on financial indicators. In particular, the method of stratification towards the poor includes people with disabilities, such as the disabled, retirees, multi-member families, the unemployed, orphans [26]. Thus, when measuring poverty, in most cases, approaches are used, based on the measurement of financial security, which does not include hidden income. The choice of approach to poverty assessment for modern reality tends to apply the absolute line, which allows determining the size of the poorest population and use it as a starting point in the development of social protection measures [17].

Poverty in the general sense is a phenomenon in which material prosperity is below the poverty line [27]. At the same time, poverty is the result of economic, social and political processes [28]. Thus, the nature of inequalities in the society is significantly influenced by numerous factors, including the features of regulatory value systems. Consequently, the analysis of the types of social inequalities of different countries with the same level of development can help identify the features of the chosen model of social-economic development, which is of special practical significance [29].

Inequality is determined by the fact that one social group finds special positions in the society, which leads to the distribution of social wealth for their own benefit [30]. Such opportunity opens up control over the rarest resource of a society, as well as the rarest factor of production.

Latin America is unfortunately known as the largest income-inequitable region in the world due to the fact that the income inequality is one of the most obvious manifestations of poverty, hampering the development and enjoyment of human rights and well-being, including innovation, productivity and economic growth [31].

In the early stages of social progress, military force was the most important resource; the monopoly on it determined the dominant class of the society. The whole history of the ancient world shows that control over the army provided all the necessary levers of control. In a later period, when direct coercion was supplemented by elements of economic aspect, land and other conditions of agricultural production were the most important resources, and land ownership determined belonging to the dominant feudal class [32]. As the opportunity arose to accumulate significant wealth by methods other than the exploitation of the peasantry, the role of land as the main factor of production declined to the point that the claims of its owners on state power began to be perceived as absolutely groundless ones [33]. The bourgeois system, in which all elements of social wealth became a commodity, determined the transformation of capital into a decisive factor in production, and the possession of it as the main precondition for social polarization.

Currently, there are more than 8 000 non-governmental organizations in the United States and Western Europe, activities of which are entirely related to the implementation of programs in order to promote living standards in the Third World [34]. Herewith, free deliveries provide up to 18% of food and up to 60% of medicines consumed in the 60 poorest countries on the planet [35]. It should be noted that this practice is becoming self-replicating; thus, the period of hope for "development" has been over, and the prospects of many developing countries are connected only with the charity of the Western world.

Nowadays, poverty is a global problem around the world. Sooner or later, every state faces it, trying to find a way out of this situation. The World Bank argues that poverty

reduction in the last quarter of a century brings humanity closer to eradicating poverty by 2030. At the same time, according to an international survey conducted by the Gallup International Research Center in 2014, the problem of poverty has taken a stable third place in the list of world problems (12% of votes) [35].

6. Conclusions

The conducted research makes it possible to conclude that the problem of poverty and social inequality is inextricably linked with the problem of social justice. In this context, social justice is applied as a category that determines the degree of equality and inequality of social actors depending on the social-value and social-normative matrix of a particular social-historical state of the social system.

In the process of studying the causes of poverty and economic inequality on regional, social, age, class, gender grounds, it has been established that a new system of inequality relations is being formed in the modern world. Along with this, the relationships between the forms of ownership, the institutions of power change; some strata of the population disappear, others appear, and their social role and status change. Specific forms of inequality undergo modifications, however, its principle is always manifested. An analysis of statistical information, investigations and data from international organizations makes it possible to suggest that global income inequality is growing, especially in third world countries. At the same time, an increasingly noticeable stratification of the population takes place based on poverty.

However, poverty as a global problem can be solved; it is evidenced by the high living standards achieved by a group of developed countries with a low percentage of low-income citizens. In the process of studying national experience in combating poverty, differences in measures to prevent and reduce social inequality have been revealed. Along with this, it is obvious that in order to eliminate the problem under study, joint efforts of all mankind are needed, forasmuch as there are risk factors (in particular COVID-19) that have a destructive effect on the development of the society as a whole.

The issue of poverty and social inequality is extremely difficult and requires careful research with application of modern scientific approaches to its measurement and assessment, as well as the practical experience of developed countries in overcoming and preventing poverty. However, it is becoming more and more obvious that property stratification, which has reached critical proportions to date, has undoubtedly become a key barrier for the further development of humanity and overcoming the problems of hunger and poverty. Further investigations may be aimed at studying the world experience in finding methods for the

transition to a more equitable social order on a planetary scale.

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