ECONOMIC INEQUALITY IN CHINA AND THE UNITED STATES

Name

Course

Date

**Introduction**

The government formulates economic policies to improve both the economic growth of the nation and that of individuals. Two countries may have different financial impacts through the implementation of its policies and thus have a financial inequality. Economic inequality is the difference obtained from quantifying economic welfare of in a country’s population or at the individual level. Different countries in the world have varying economic inequalities because of the difference in governance systems. Factors that affect economic disparities include, but not limited to, changes in policies, technological changes, and outcomes in the labour market.[[1]](#footnote-1) The wealth, income, and consumption are the three measures that are used in determining inequalities in different economies. Majorly, the Gini coefficient indexing method is used in measuring the existing economic disparities between nations. The effects of economic disparities included sustainability problems and slowed the long-term growth of a country. Globalization is the best way of counteracting with economic disparities globally. United States (US) and China are examples of two economies that have disparities that are attributed to different factors.

Economic inequality between the US and China exists because of different economic policies among many other factors. The behaviour of the economy is influenced by the economic policies made by the government. These strategies enable the government to decide on how it will spend its funds and resources, taxation guidelines, currency circulation, and wealth redistribution. Scissors states that the economic performance of the US is much better compared to that of China because of bad economic policies that the latter has.[[2]](#footnote-2) The two nations have been chosen for discussion to study the policy issues on economic growth and also because they are the largest economies in the world.

**Discussion**

The difference in economic policies between the US and China have created inequality between the two nations as well as to the individuals living in both countries. In understanding the effect of economic policies, it is essential to understand the roles of economic policies in a country. Additionally, cover some of the economic strategies that both nations have and how they contribute to the inequality.

The economic inequalities between the US and China exist because of different outcomes of the economic policies that are formulated on economic management. There are several goals of these policies that are mostly accepted regardless of the country.[[3]](#footnote-3) The first objective is to control the price of different commodities to prevent inflation and deflation effects to the country’s economy. The second objective is to facilitate employment to many citizens who are able to work. Additionally, the policy aims at ensuring that there are job opportunities for the citizens. Finally, they are most significantly meant to promote the overall economic growth. The income of every individual working increase over time as the inflation price is accounted. These policies are made by the government as a way of coping with emergent problems that may disrupt the country’s economy. Both US and China compete towards these objectives, and therefore, policies are often reformed to facilitate efficiency once they are implemented. The two nations are the most competitive in economic growth. Despite China’s rapid growth, it has not surpassed the economic stability of the US.

Income inequalities contribute to economic disparities. In both the US and China, income gaps have been large and have caused major problems in social cohesion and politics as well.[[4]](#footnote-4) The income gaps affect equality in that the rich grow richer while the poor grow poorer.[[5]](#footnote-5) Both nations experienced economic disproportions relatively at the same time more than three decades ago. Both nations implemented policies that saw the rise in economic growth over time. For instance, China implemented the policy on private ownership of companies and later saw the rapid growth of its economy. Additionally, as a result, the income gap was reduced to a great extent that China almost came to the same level as the US. Therefore, economic policy plays a significant role in reducing taxes for the individuals and the corporations. However, to control the income gap, the government should formulate economic policies that see to the heavy taxation of the rich and multi-billion corporations so as to distribute the wealth equally among the citizens. Both the US and China formulate the economic policies to facilitate sustainability and growth as well as cater for the welfare of the citizens.

China’s economic policies have been the most significant contributing factors in its growth at such a high rate. China is identified to have been the poorest country before 1978 with its GDP being as low as one-fortieth to that of the US.[[6]](#footnote-6) This figure has improved to currently about one-fifth with an incremental annual GDP growth of about eight percent. China has been reforming its economic policies over time through a gradual, decentralized and experimental process. The increase of economy disparity accompanies these economic growth and reforms resulting to an increase in risks associated with the stability of the society.[[7]](#footnote-7) In 1979, China adopted the market-oriented policy reforms and thereafter followed by transformations that have seen continuous reforms being implemented on the economic policies. Reforms on policies regarding the currency exchange rate, growth, monetary and fiscal, and financial regulation are among the instruments that dictate the economic policy.[[8]](#footnote-8) The shift from central economy to a market economy has been slow and involving complex policies but nevertheless successful in handling the problems that accompany the market development.

The adoption of market-oriented policy reforms came with a number of advantages. First, many of the state-owned businesses were privatized as the industries in the rural areas, and urban neighbourhoods were promoted. Secondly, the labour market was promoted, and this fostered an environment for innovation and creativity in industries. Thirdly, growth was accounted for by the reforms in institutions and the legal sector.[[9]](#footnote-9) The most significant outcome is that policy reforms have seen China grow from poor backgrounds to currently being the second largest economy in the world after the United States.[[10]](#footnote-10) The integration of globalization into the Chinese economy has played a significant role in influencing the policy changes. The economic policies have developed new company laws that will allow owners of private corporations. Other policies included removal of state export monopoly, reducing tariffs, and allowing foreign investments.

The gross domestic profit (GDP) of China has been increasing since the commencement of policy reforms on the economy more than two decades ago. Unlike the US, China is more of a developing nation in a transition towards a more successful economy. Although the policies have been changing and documenting a progressive success, Scissors argue that the performance of the economy is not measured by the trends portrayed but rather the policies in place.[[11]](#footnote-11) In this regard, China is defined to have poor policies in contrast to those of the US. The disadvantages that accompanied China’s transformation process included high unemployment rate. Effective economy policies that aim at eliminating economic inequalities should be able to address the issue of employment. The one-child policy is an example of an economic policy created by the government with the aim of increasing GDP growth.

Unlike the US, China has a tendency of over-reliance on debt which affects its economy despite the economy’s success. Wallace interprets the International Monetary Funds (IMF) report and examines its recommendations. The IMF has given a warning on a looming financial and economic crisis in China due to the massive debts the nation is currently having.[[12]](#footnote-12) China’s government expenditure is determined to be increasing parallel to the growth of the country’s economy, and this is a risk factor on the economy. Additionally, the country’s growth has been somehow affected by a load of debt since the GDP is directly affected in the process. China’s growth is expected to slow down gradually as the debt accumulates. The attributing factor to these expectations is the government’s poor expenditure of the debt funds.[[13]](#footnote-13) Economic policies should govern or guide the government on how to appropriately spend funds and also manage debts. From the explanation above, it is a clear indication that China’s economic policies have failed to address the issue.

The People’s Republic of China is poorer and smaller than the US when compared on economic dimensions.[[14]](#footnote-14) The rapid growth of China’s economy has brought a perception that China will surpass the US economy in the near future. However, the US has a more economic advantage that will last for a longer time. The leadership style in China is a limiting factor in the development of economic policies. There remains a huge gap between the GDP between the two nations. China’s economy is decentralized, and so is the government.[[15]](#footnote-15) The state is overly intervening in matters related to the economy. For more than centuries, the western economies have been adopted in the modern China. These economies have been characterized as limited, applicable, periodic, open, and localized.[[16]](#footnote-16) The Chinese scholars have been eager to learn how the western economies function. The applicability of the western knowledge on economics has contributed to China being able to implement and apply policies to promote the economic growth.

The US economic policies are formulated and followed effectively. This effectiveness has attributed to the country’s successful economy for over a century. From the summary of US economy forecast, the economic projections indicate an increase in growth in the next two years.[[17]](#footnote-17) Integration of fiscal policies into the economic policies is essential in supporting the long-term growth of the economy. Employment is also a key factor in boosting the economy, and thus, policies that will enable many people to get employed will positively affect the nation's growth. In 2018, the investment and consumption growth are expected to grow as the confidence of the consumers, and that of the businesses increase. Tax reforms will promote consumption, wage growth, and investment in return. Additionally, the GDP is temporarily expected to grow. This is a positive projection meaning that the economic policies in place are effective in enabling the government to achieve its long-term goals of continuous economic growth.

The economic policies have had a lot of benefits to the economy but have contributed significantly to economic disparities among its citizens. In the early nineteenth century, nations such as the United Kingdom and the United States were undergoing an industrial revolution. China, on the other hand, was into agriculture by the time from which it transformed from agriculture to industrialization resulting to an inequality gap as a result of a shift from low agricultural labour to high labour industrialization. The Chinese government can solve such income gaps only through the formulation of policies that will enable the proper distribution of the country’s wealth.

The US has an advantage over China because of its economic policies. The former has remained unchallenged by economic disparities for a long time as since it rose to the top of the global economy. In addition to having a good economic policy, it is endowed with different types of resources: human, financial, and natural. China is largely disadvantaged by the lack of adequate natural resources. The country imports its resources such as soybean, coal, and oil.[[18]](#footnote-18) The US has a vast space of land viable for farming and also space for further development compared to China. The US also has larger coal reserves than China that it does not rely heavily on in present times. The number of individuals living in China is four times that of America, and therefore, America is able to manage the economy of its citizens more effectively. Finally, pollution is a great concern in China as compared to the US. Therefore, natural resources in the US will still remain valuable for a long time.[[19]](#footnote-19)

**Conclusion**

Economic inequalities are the differences measured from the assessment the citizen economic welfare as well as the living standards. Economic inequalities are problems to the country that affect the citizens, and it is, therefore, the role of the government to help in controlling such occurrences. In order to accomplish the objective, policies have to be created by the government. Policies are guidelines that will be used as guidelines in solving Economic inequalities. Economic policies are among the most significant factors that influence the inequalities in the economy between different nations. For instance, the US has different policies from those of China in enabling it to achieve economic growth and long-term economic sustainability. The United States and China are two nations that have a high economic growth. The US has been determined to be economically stable for over a century whereas China has risen from the state of poverty to the current economic growth has undergone rapid growth.

Policies are changeable, and that is the reason why China has undergone many policy reforms that will favour economic growth. The United States, on the other hand, they have economic policies that well formulated and the country will be able to see growth over the next two years because of the expected fiscal policy reform. Income inequality has been determined to be the main problem leading to economic inequality in the two countries under study. The US is endowed with vast natural resources that will remain viable for a long period. However, China is environmentally disadvantaged evidence by the vast number of commodities such as oil and also the country is faced with problems of pollution. Therefore, economic policies that govern taxation, labour, and management of natural resources may alleviate the economic inequality between the two nations.

Bibliography

Asheghian, Parviz. “DETERMINANTS OF ECONOMIC GROWTH IN THE UNITED STATES: The Role of Foreign Direct Investment.” *International Trade Journal* 18, no. 1 (Spring 2004): 63.

Cheng, Lin, and Shen Zhang. “The Spread of Western Economics in China: Features and Influence (1840–1949).” *Frontiers of Economics in China* 12, no. 2 (2017): 193.

Fleisher, Belton M., and Jian Chen. “The Coast–coast Income Gap, Productivity, and Regional Economic Policy in China.” *Journal of Comparative Economics* 25, no. 2 (1997): 220–36.

Forecast Summary. “United States - Economic Forecast Summary (November 2017) - OECD,” 2017. http://www.oecd.org/unitedstates/united-states-economic-forecast-summary.htm.

Hsu, Sara. “High Income Inequality Still Festering In China.” Forbes, November 18, 2016. https://www.forbes.com/sites/sarahsu/2016/11/18/high-income-inequality-still-festering-in-china/.

Knight, John. “The Societal Cost of China’s Rapid Economic Growth.” *Asian Economic Papers* 15, no. 2 (Summer 2016): 138.

Scissors, Derek. “The United States vs. China—Which Economy Is Bigger, Which Is Better.” *Backgrounder* 2547 (2011): 1–10.

Wallace, Tim. “China’s Debt Boom Could Lead to Financial Crisis, IMF Warns.” *The Telegraph*, August 15, 2017. http://www.telegraph.co.uk/business/2017/08/15/chinas-debt-boom-could-lead-financial-crisis-imf-warns/.

Yueh, Linda. “Chinese Economic Policy - Political Science - Oxford Bibliographies - Obo,” July 26, 2017. http://www.oxfordbibliographies.com/view/document/obo-9780199756223/obo-9780199756223-0225.xml.

Zhu, Xiaodong. “Understanding China’s Growth: Past, Present, and Future.” *The Journal of Economic Perspectives* 26, no. 4 (2012): 103–24.

1. Parviz Asheghian, “DETERMINANTS OF ECONOMIC GROWTH IN THE UNITED STATES: The Role of Foreign Direct Investment,” *International Trade Journal* 18, no. 1 (Spring 2004), 63. [↑](#footnote-ref-1)
2. Derek Scissors, “The United States vs. China—Which Economy Is Bigger, Which Is Better,” *Backgrounder* 2547 (2011), 1. [↑](#footnote-ref-2)
3. Belton M. Fleisher and Jian Chen, “The Coast–noncoast Income Gap, Productivity, and Regional Economic Policy in China,” *Journal of Comparative Economics* 25, no. 2 (1997): 220–36, 1. [↑](#footnote-ref-3)
4. Sara Hsu, “High Income Inequality Still Festering In China,” Forbes, November 18, 2016, https://www.forbes.com/sites/sarahsu/2016/11/18/high-income-inequality-still-festering-in-china/. [↑](#footnote-ref-4)
5. Hsu. [↑](#footnote-ref-5)
6. Xiaodong Zhu, “Understanding China’s Growth: Past, Present, and Future,” *The Journal of Economic Perspectives* 26, no. 4 (2012): 103–24, 103. [↑](#footnote-ref-6)
7. John Knight, “The Societal Cost of China’s Rapid Economic Growth,” *Asian Economic Papers* 15, no. 2 (Summer 2016): 138. [↑](#footnote-ref-7)
8. Linda Yueh, “Chinese Economic Policy - Political Science - Oxford Bibliographies - Obo,” July 26, 2017, http://www.oxfordbibliographies.com/view/document/obo-9780199756223/obo-9780199756223-0225.xml., 193. [↑](#footnote-ref-8)
9. Zhu, “Understanding China’s Growth: Past, Present, and Future.”, 103. [↑](#footnote-ref-9)
10. Yueh, “Chinese Economic Policy - Political Science - Oxford Bibliographies - Obo.” [↑](#footnote-ref-10)
11. Scissors, “The United States vs. China—Which Economy Is Bigger, Which Is Better.”, 1. [↑](#footnote-ref-11)
12. Tim Wallace, “China’s Debt Boom Could Lead to Financial Crisis, IMF Warns,” *The Telegraph*, August 15, 2017, http://www.telegraph.co.uk/business/2017/08/15/chinas-debt-boom-could-lead-financial-crisis-imf-warns/. [↑](#footnote-ref-12)
13. Wallace. [↑](#footnote-ref-13)
14. Scissors, “The United States vs. China—Which Economy Is Bigger, Which Is Better.”, 1. [↑](#footnote-ref-14)
15. Knight, “The Societal Cost of China’s Rapid Economic Growth.”, 139. [↑](#footnote-ref-15)
16. Lin Cheng and Shen Zhang, “The Spread of Western Economics in China: Features and Influence (1840–1949),” *Frontiers of Economics in China* 12, no. 2 (2017): 193. [↑](#footnote-ref-16)
17. Forecast Summary, “United States - Economic Forecast Summary (November 2017) - OECD,” 2017, http://www.oecd.org/unitedstates/united-states-economic-forecast-summary.htm. [↑](#footnote-ref-17)
18. Scissors, “The United States vs. China—Which Economy Is Bigger, Which Is Better.”, 5. [↑](#footnote-ref-18)
19. Scissors., 8. [↑](#footnote-ref-19)