A Comparative Study on Wealth Inequality in China and the United States

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Abstract. Wealth inequality is a hot issue in today's world, and the wealth inequality in different countries presents different features under different political and economic systems. In this paper, we make a comprehensive comparison on wealth inequality between China and the United States. Statistically, the United States is richer than China in wealth gap, that is, the returns of capital is larger than the income of labor under the liberalization, the wealth of the tech monopolization, and the system factors such as the education inequality and the regressive tax system contribute to the wealth inequality in the United States. As for China, the inequality comes from its process of economic system transformation from planned economy to market economy. The growth of reform period is limited to coastal areas, forming the urban-rural gap, and the household registration system restricts the migrants' access to resources in the past. The policy responses are also different between the two countries. It is difficult for the United States to establish a coordinated welfare policy, but the policy response of China focuses on the revitalization of the countryside and the strategy of "common prosperity". In this paper, we will study the impact of wealth inequality on social cohesion between the two countries. The United States is plagued by social unrest, while China is also facing the challenge of maintaining social cohesion in the process of economic development.

Keywords: Wealth Inequality, China, the United States

1 Introduction

Wealth inequality, also known as wealth inequality, refers to the unequal distribution of assets and resources in a society. Wealth inequality is a major issue that attracts the attention of policymakers, scholars and the public from all over the world. With the development of society, wealth inequality is also more and more serious. In recent years, wealth inequality in China and the United States has become increasingly prominent. However, the two countries have different political, economic and social environments. Wealth inequality in these two countries has different manifestations, causes and policy responses. Understanding the wealth inequality in these two countries is of great significance. First, it can help us understand how different political and economic systems deal with wealth distribution. Second, it can help us understand the relationship between economic development and wealth inequality. Third, it can help us understand

A. J. Moshayedi (ed.), *Proceedings of the 2025 International Conference on Hybrid Commerce, Human Capital, and Economic Dynamics (ICHCH 2025)*, Advances in Economics, Business and Management Research 374,
https://doi.org/10.2991/978-2-38476-585-0_105

the policy response to wealth inequality. Therefore, this paper aims to explore wealth inequality in China and the United States through a comparative study.

2 Wealth inequality: Statistical comparison

2.1 Wealth distribution pattern in the United States

wealth inequality in the United States is one of the most serious in developed countries. According to the survey published by the Federal Reserve, in 2023, the top 1% of American households own about 32% of the wealth in the United States, and the bottom 50% own only 2.5%. Wealth inequality in the United States is increasing rapidly, and it has increased by nearly 10 percentage points in the past 40 years.

Wealth inequality in the U.S. is also apparent from various aspects. First, the ownership of assets is highly concentrated. The top 10% of households own more than 80% of stocks and mutual funds, and most Americans own their homes as wealth. In addition, there is a clear disparity in wealth ownership between different races. White households own much more wealth than Black or Hispanic households. The median wealth of white households was about 24,100 dollars for Black households and $36,100 for Hispanic households.

2.2 Wealth Inequality in China

Wealth inequality in China has been rising sharply since the start of its economic reforms in 1978. The Gini coefficient, which is often used to measure inequality where 0 represents complete equality and 1 represents complete inequality, rose from around 0.30 in the late 1970s to 0.466 in 2022 (National Bureau of Statistics of China, 2023). Although China's Gini coefficient is lower than that of the United States, which was 0.488 in 2022 (World Bank, 2022), the rate of increase is quite fast.

Another important feature of wealth inequality in China is that urban households own more wealth than rural households. Per capita disposable income of urban residents reached 39,281 yuan in 2022 while that of rural residents was only 17,131 yuan (National Bureau of Statistics of China, 2023). There is also a clear wealth gap between different regions. Wealth in coastal provinces such as Guangdong and Jiangsu is significantly higher than that in inland areas. Another important feature of wealth distribution in China is the participation of the state. State-owned enterprises and government officials account for a large proportion of wealth, which may lead to the emergence of cronyism and rent-seeking. But China has achieved great success in eliminating extreme poverty. More than 800 million people have been lifted out of poverty since 1978 according to World Bank estimates.

2.3 Main Manifestation Differences

How Is Wealth Inequality Different in China and the United States?

The expression of inequality in wealth is very different in China and the United States due to their different histories, institutions, and social contexts.

One way to think about inequality in wealth in China and the United States is in terms of how wealth is concentrated. In the United States, inequality is characterized by the concentration of wealth among the tippy-top of the socioeconomic ladder. A handful of people—mostly the top 1%—own a disproportionate share of the country's wealth. This is true for financial wealth, corporate equity, residential real estate, and more. "Top-heavy" tells a story of who has been winning in the wealth game.

In China, inequality is more visibly expressed in place. Rural-urban disparities and disparities between regions are more prominent. Decades of two-speed development have produced a divide between relatively prosperous coastal cities and less developed inland areas. Historical urban-rural dualism—along with institutional discrimination between urban and rural residents—have led to gaps in income, public expenditure, and asset holdings between city dwellers and peasants.

Another dimension to understanding China and the United States is through the lens of identity. In the United States, race and ethnicity are powerful factors in wealth inequality and persistent drivers of disparities. Historical and ongoing discrimination—such as redlining, access to education and housing, and the accumulation of human and physical capital—have produced massive and intergenerational wealth gaps between white families and African Americans, Hispanics, and Native Americans. Disparities based on race and ethnicity exist at every step of the wealth game—from home ownership to investment.

In China, there are virtually no ethnic disparities in wealth. Although there are 56 ethnic groups in the country, after government policies of ethnic equality and focused assistance to ethnic minority areas, ethnic-based wealth gaps are not pronounced. Where ethnic wealth gaps do exist they are secondary to location, urban-rural status and opportunities.

Third, the forces driving wealth distribution are quite different in the two countries. In China, wealth is more directly influenced by the presence of government and control over SOEs. Big picture strategic decisions such as development priorities for regions (e.g., why coastal areas before inland areas), institutional designs like the household registration (hukou) system, and direct government involvement and control in critical sectors, all have contributed to how wealth ends up where it does. Government influence on poverty reduction, assistance, infrastructure investment and even recent "common prosperity" efforts all have a direct and deliberate hand in reducing or managing disparities.

In the United States, wealth inequality is more directly influenced by strategic decisions made in the laissez-faire sphere, the influence of capital over labor in income distribution, by the concentration of market power in the hands of those in tech and finance, and by the role of private wealth in shaping access to opportunities. Market-driven strategic decisions by policymakers and private sector actors over the last several decades, more than direct state influence, have seen returns on investment outpace wage growth.

3 What Are the Drivers of Wealth Inequality?

3.1 Drivers of Wealth Inequality in the United States?

There are several related factors that explain why wealth inequality is so high in the United States.

3.1.1 Skill-Biased Technical Change Growth?

As technology advances, it tends to benefit highly skilled workers more than low-skilled workers, leading to a larger gap in wages between highly skilled and low-skilled workers. This skill-biased technical change leads to a greater demand for workers with higher education and technical skills, who in turn earn more money and are able to save and invest more wealth.

3.1.2 Economic Policy and Taxation?

Economic policy changes in the last few decades have reduced taxes on the wealthy, reduced social welfare programs, and deregulate the market. The top marginal income tax rate has been cut from 70% in the 1970s to 37% in 2023. The capital gains tax rate, which mostly benefits the wealthy, has also been reduced.

3.1.3 Institutional Factors and Market Power?

Increasing market concentration in certain industries, such as technology and finance, have allowed large corporations and their shareholders to command a larger share of the economic gains. As a result, large corporations earn more profits and their shareholders have more wealth to command, while wages for workers have remained stagnant relative to productivity growth.

3.1.4 Historical and Systemic Factors?

Discrimination against minority groups in American history through practices such as redlining, segregation, and unequal access to education and jobs have created disparities in wealth accumulation between minority groups and white Americans. The legacy of these systemic issues have made it difficult for minority groups to build wealth at the same rate as white Americans, leading to intergenerational wealth inequality.

3.2 Drivers of Wealth Inequality in China?

There are several drivers of wealth inequality in China, which is different from wealth inequality in the United States.

3.2.1 Economic Transition and Market Reforms?

As China transitions from a planned economy to a market economy, the changes in economic policy have created new opportunities for wealth accumulation, especially for those who were able to enter the private sector or participate in the growth of the market. With these changes in economic policy, the equal distribution of resources in the planned economy era has been eroded.

3.2.2 Regional Development Strategies?

When China began its "reform and opening-up" policy, the government decided to develop certain regions, such as Shenzhen and Shanghai, through preferential policies and investment. This reform policy for certain regions led to these areas experiencing greater wealth and economic growth.

3.2.3 Rural-Urban Divide and Hukou System?

The hukou system, which denies rural residents access to public services and work in urban areas, has entrenched the rural-urban wealth gap. Urban residents enjoy the fruits of economic growth more than their rural counterparts – better jobs, education and access to housing and other assets that increase in value.

3.2.4 Crony Capitalism – China’s Anti-Corruption Campaign and the Rise of “富可敌国” (Rich enough to oppose the country)?

Although China has cracked down on corruption, in some cases political power has combined with economic interest to allow for crony capitalism, in which select individuals and companies have enriched themselves through preferment, land grabs and other means.

4 Policies to Reduce Wealth Inequality in Each Country?

4.1 US Policies to Reduce Wealth Inequality?

4.1.1. Progressive taxation – Is the US tax system truly progressive?

Although the US tax system is nominally progressive, with higher taxes on higher incomes, many loopholes and preferments reduce the redistributive effect of the tax code. Plans to tax the rich more have been made, including a wealth tax and higher taxes on capital gains and wealth transfers, but have not been widely implemented.

4.1.2. Social welfare programmes – A safety net for the poor?

Social security programmes such as Social Security, Medicare and Medicaid provide assistance for the poor and elderly, reducing poverty rates, but doing little to address the underlying causes of wealth inequality. Programs such as housing assistance and food stamps have limited funding and reach.

4.1.3. Education and labor market policies – Increasing economic mobility?

Efforts to expand access to education, especially higher education, have been aimed at reducing wealth inequality. But higher education is increasingly unaffordable, with students in debt. Labor market policies, including minimum wage laws and the protection of trade unions, have weakened in recent decades, reducing the bargaining power of low wage workers.

4.2 Chinese Policies to Reduce Wealth Inequality?

China has taken a more interventionist approach to reducing wealth inequality, reflecting its socialist ideology and highly centralized government structure.

4.2.1. Poverty alleviation campaign?

Since the launch of reforms in 1978, China has launched several poverty alleviation campaigns, with a particular focus on rural areas. The Targeted Poverty Alleviation campaign launched in 2013 has been remarkably successful in lifting at least 80 million people out of poverty, according to the government, through a combination of financial aid, job training and relocation.

4.2.2. Regional development strategy?

Policies such as the Western Development Strategy and Rise of Central China have aimed at reducing regional disparities in wealth by transferring investment and resources to inland provinces. These policies have narrowed the gap between wealth and development in coastal and inland provinces.

4.2.3. Rural urban integration?

Reforms in the HuKou system- restrictions on the movement of rural dwellers to cities have been introduced to narrow the gap between rural and urban areas. Reforms in infrastructure, education and health for the rural areas have been aimed at enhancing the quality of life in the rural areas and increasing the income of the rural dwellers.

4.2.4 Common Prosperity Plan

In recent years, the Chinese Government has articulated a renewed commitment to achieving common prosperity. In order to achieve this, the Chinese Government has taken steps to regulate high incomes, expand the middle class and promote more equitable distribution of wealth. This has involved measures such as prohibitive taxes on profits made by certain industries, increasing taxes on high incomes, and encouraging greater levels of charitable giving through the third distribution mechanism.

5 Implications and challenges

5.1 implications for social stability

High levels of wealth inequality have implications for social stability in both countries. In the United States, high inequality has been associated with polarization, social unrest and decreasing trust in institutions as evidenced by the Occupy Wall Street movement and the increasingly polarized political divide between the wealthy cities and less wealthy rural areas.

In China, the Government views inequality as a potential threat to social stability and its legitimacy. Although the Chinese economy has grown rapidly in recent years resulting in an increase in the living standards of most citizens, high levels of inequality have resulted in protests and social unrest. Such protests have been particularly evident in rural areas and among migrant workers. The Chinese Government's current focus on common prosperity reflects the potential risks of inequality highlighted above.

5.2 Implications for economic sustainability

High levels of wealth inequality can also threaten long-term economic sustainability. In the United States, high inequality has been associated with low consumer demand (as lower income households have less disposable income to spend), slower economic growth and increased financial instability as high levels of household debt have characterized the middle and lower classes.

In China, high rural-urban and regional disparities have resulted in low efficiency in the economy. There has been under utilization of rural labor and uneven development of domestic markets. Decreasing these disparities will be important for achieving more sustainable economic growth, particularly as the Chinese economy transitions towards being more dependent on consumption.

5.3 Challenges in addressing inequality

Both countries face challenges in addressing wealth inequality. In the United States, polarization and the influence of wealthy individuals and companies on the political process has limited the implementation of more progressive policies. The decentralized nature of the governance system in the United States also limits the implementation of coordinated policies to reduce inequality between states and regions.

In China, the challenge lies in the need to balance economic efficiency and economic equity. Market reforms have been important for economic growth in China but have also contributed towards high levels of inequality. Additionally, policies aimed at reducing inequality such as increasing taxes on the wealthy or redistribution of resources from coastal to inland areas face resistance from interest groups.

6 Conclusion

This comparative study shows that China and the United States face similar challenges of wealth inequality, but their experiences are very different in terms of their magnitude, drivers, and policy responses. The United States displays higher wealth concentration overall due to market forces and technological change. System factors such as historical racial discrimination persist in wealth and inequality, which also explain the current disparities in education, housing, and access to capital. For example, racial minorities have fewer opportunities to build wealth due to lower home ownership rates and discriminatory lending and mortgage practices, which contribute to the wealth inequality gap. China's inequality is more reflected in rural-urban and regional gaps, as a result of its past experience as a planned economy and deliberate development strategies. Deliberate development strategies and growth policies in the past decades have driven rapid growth in China's coastal areas, creating significant gaps between the eastern metropolises and inland areas. These gaps have been further entrenched by household registration systems, which have historically restricted the access of rural migrants to public services in cities.

Policy responses to wealth inequality reflect the political economy of the two countries. The United States has relied on market forces with limited redistribution. Patchy welfare policies and regressive tax policies have all failed to mitigate wealth concentration.

In contrast, China has adopted a more interventionist approach. It has launched a series of targeted policies, such as the rural revitalization, poverty alleviation, and "common prosperity" pilots, to narrow gaps through infrastructure investment and regulating wealth concentration.

Both approaches have met with limited success. The United States is stuck in political stalemate. China faces a challenge of sustaining growth while addressing distribution. Given their different starting points, it is unlikely that the two countries will converge on the same policy approach. In the United States, the challenge lies in making progressive taxation work, expanding social safety nets, and eliminating systemic barriers to social mobility for marginalized groups. In China, turning common prosperity into reality will require deepening reforms, raising rural incomes, and reining in the runaway expansion of capital.

The comparison shows there is no silver bullet. Good strategies need to take into account a country's institutions, economic characteristics, and social consensus.

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