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The Power of the Middle Class in the United States and China

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The Power of the Middle Class in the United States and China

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International Relations and Multilateral Diplomacy
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Abstract

The global middle class has been experiencing exponential growth, but because of differences among countries in regard to stages of development, the growth has not been spread evenly across the world. The United States and much of the Western World is undergoing a shrinking middle class due to economic deregulation and automation whereas China and other countries in the Eastern World have had middle class growth in recent years (OECD, 2019). The juxtaposition between the middle classes is also reflected in the juxtaposition of the respective countries' GDP growth. Therefore, the United States and China, because of their pronounced systemic differences and blatant changes in their middle class, will be examined in this paper.

Because the two countries are at different stages of development, different levels of growth are expected, but the degree to which they are different exposes the limits of liberal economics forces that rely on non-market power and deregulation. This paper argues the United States is going to have to employ numerous tools, such as reskilling, social programs, and higher wages, in order to combat the shrinking middle class and its negative effects as well as offset the economic and political power that China has gained and will amass from a growing middle class.

The methods used to gather information for the purposes of this research paper are discussed in detail below, but they include analyzing statistics and data relating to the middle class, GDP, and inequality, interviewing experts on the topic, and synthesizing the information given in interviews with information found from scholarly journals published online. Six experts, most of whom are professors at universities, helped contribute to this research by answering a multitude of interview questions. The experts specialized in topics such as inequality, development, China and India, and economics, but all offered a unique perspective and helped advance the research.

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Introduction

The Problem

Throughout societal, political, and economic changes over the course of human history, the middle class has always been the backbone of the economy: when the middle class is prospering and accumulating wealth, a country experiences growth in gross domestic product (GDP), economic and political stability, and perhaps most importantly, the wellbeing of residents (OECD, 2019). Though the middle class has been growing on average by 54 million people every single year since 2011, in recent years, it has become clear that middle classes in different areas of the world are in different stages of development. This is evident through the job polarization and subsequent shrinking of the middle class in the United States as opposed to the exponential growth of the middle class in China.

Because a strong middle class is correlated with a high GDP, it is useful to acknowledge that the United States and China have the highest in the world (Frankel, 2020). According to the World Bank's International Comparison Program, the United States' GDP totaled 20,936,600 millions of US dollars and China's total was 14,722,731 millions of US dollars in 2020 (The World Bank, 2020). These GDPs resulted in the two countries receiving the first and second global rankings in terms of GDP and subsequent economic power (Frankel, 2020). While the United States economy has been developing since its before its foundation in the late 1700s, the Chinese economy only recently became a world competitor after significant economic reform that happened in 1979, so the swift economic success of China has been a shock to many (Chakravartti, 2022). The different routes to economic growth have strayed far from each other specifically because of the vastly different economic systems, whose processes, effects, and implications will be critically analyzed in the remainder of this paper.

Since the growth of the Chinese middle class and economy began in 1979, power dynamics in the world have been shifting away from the United States hegemony and to a multipolar system (Csurgai, 2022). This change in power and the middle classes in both states will have consequences on many other areas of existence such as the climate, way of life, and inequality throughout the world (Fatton, 2022). It is important to examine the two systems in order to get a better understanding for the future of the global economy, but also to see which system has been more effective in providing security and stability to its residents. This comparison will require many defining features, some assumptions, and few limiting factors that may prevent the discovery of a solution to the problem. Furthermore, because the economic systems themselves are different, the United States uses financialization while China has relied on state control, and the timelines for development are different, it is important to acknowledge the limitations of this research.

Focus of the study

Though changes in the makeup of the middle class can be seen throughout almost all of the Western World and Eastern World, the scope of this comparison would be much too broad for the purposes of this research paper (Goodarzi, 2022). Many countries in the Western World rely on a financial capitalism system, though all are unique in their own ways. Therefore, this paper will look at the changes in the United States as a representative for financial economic system because the effects are most apparent. In terms of examining a state capitalist system, this paper will examine China because of its iconic and unprecedented economic growth. Both case studies will not directly translate to the rest of the Western and Eastern worlds, respectively, due to differences in ideology, political systems, and country composition, but it will provide a basic understanding for what is occurring in countries that are not directly examined in this paper.

This study will begin with detailed descriptions of financial capitalism and state capitalism, followed by an outline of the history and current state of the middle class in the United States and China. Then, it will thoroughly examine how automation in the United States has led to job polarization and how state control has brought millions out of poverty in China. It will conclude with the future outlook experts have on the economies of the two countries as related to the future of inequality and the middle class.

Research Question

The research question to be answered in this paper is: Why is the middle class in the Western World shrinking and the middle class in the Eastern World growing, what are the effects on the economy and the people in it, and what does the future of the economy look like for the two respective areas? Because there is much variation between countries located within the Western and Eastern worlds, the United States and China specifically will be analyzed to provide an understanding whose basic implications can be translated to other countries in the regions. Because of the complexity of this topic, specific factors of the question will remain unanswered.

Literature Review

Despite the prevalence of the relationship between the United States and China and its implications of larger populations of the world and the global power structure, minimal research comparing the two countries has occurred, so studies focused on each country were used. In order to effectively complete my research, therefore, I had to analyze and synthesize many works of literature that related to my topic. While many they were helpful in examining both the causes of differences and the differences themselves between the middle classes in the United States and China, a few in particular helped me to dive deeply into the topic and form relevant conclusions on the problem. Throughout the research, there were numerous definitions of the middle class, so

it was imperative to recognize this and explain a single definition in the paper for increased clarity.

One of the most useful studies for my paper was a study done by the OECD titled, “Under Pressure: The Squeezed Middle Class.” Published in 2019, this research essentially explained nearly every detail needed to understand what is happening with the middle class in the United States. Not only did it explain that the middle class is shrinking, but it detailed why that is happening, where the jobs are going, and potential solutions for the problem. This study demonstrated a clear and comprehensive understanding of the topic within the United States. In order to dive into one of the specific causes of the shrinking middle class in the United States, research done by the MIT Department of Economics and the National Bureau of Economic Research about the polarization of jobs in the United States was referenced because it provides many references to informative and explanatory charts.

On the other hand, scholarly literature explained causes for the rise in the middle class in China, though interviews were relied on heavily for this explanation. Because the topic of state controlled capitalism was a bit more nuance as it is not the practice in the United States, it took readings like Ian Bremmer’s “The rise of state controlled capitalism” from NPR to gain an understanding. Specifically, he argues that state controlled capitalist countries will outperform other types due to government support. Finally, it is important to note that the literature referenced in this paper is not a comprehensive list of all literature on the topic, so opinions and perspectives will go unaddressed.

Research Methodology

In order to answer the main research question, the research in this paper will rely on primary sources such as statistics from trusted academic sources including research centers and

think tanks, interviews with experts in the field and historical documents. Secondary sources used will include literary interpretations from academic reports and trusted peer reviewed journals. The two of these coupled together will support a qualitative and quantitative analysis of the economic systems, inequality, and the future of work in the United States and China.

Any quantitative data will be sourced from official sources such as the Organization for Economic Cooperation and Development, otherwise known as the OECD, and PEW Research Center. This will ensure that any supporting numbers are correct accepted by the academic community. Because there are several ways to calculate statistics that this paper will cite, such as the GDP and the Gini index, it is important to acknowledge there could be discrepancies between various academic sources. Facts that include numbers will include citations for needed support.

After reaching out to numerous professionals, some who work for think tanks, nearby universities, and local citizens, I had the opportunity to interview seven experts and spoke with them about the juxtaposition between the economies of the United States and China, the differences in job types, and the respective inequality in the countries. Hearing from experts advanced my research because it provided unique perspectives. In general, the experts were able generally able to only answer questions about just the United States or just China rather than both, so analysis of causes for differences was largely based on secondary sources and my interpretations. All of the interviews were carried out in English.

To address necessary ethics for interviews, I told all of my interview subjects the purpose and intent of the research before beginning my questions and also ensured the participants knew they could refrain from answering any question if desired. The experts had generally the same questions so as to gain multiple perspectives on the same problem, but a few questions during each interview were catered to the given expert's specific area of expertise. I urged participants

to answer questions honestly and free from bias to the best of their ability. All of the experts elected to be cited by name.

Definitions and the analytical/theoretical framework

Because the middle class is a fairly arbitrary term, I will lay out perimeters for the definition I will be using in this research paper below. The term is defined in different ways by different types of occupations. Economists tend to rely on income as the sole basis while sociologists tend to look at occupational status and education. Still, philosophers and anthropologists are more concerned with the culture and power (Reeves, 2018). Though the middle class is not limited to income, the most concrete data exists around the income of people, so I will rely on the Pew Research Center (PEW) definition for middle class which encompasses all households with incomes between two-thirds and twice the national median (Reeves, 2018). I acknowledge that the middle class is a more complicated concept than an income number, but for the purposes of this research paper, the middle class will be based on the definition from PEW.

Furthermore, because of the relativity of the middle class resulting from the PEW definition since the national median changes, any time the middle class is said to be shrinking, I am referring to the current job polarization in the United States. The United States is experiencing an increase in high earning and low earning jobs and a decrease of middle earning jobs. On the other hand, the growth of the middle class refers to an increase in middle earning jobs which means an increase in number of people who are economically secure and have the ability to invest or save some of their money after purchasing basic necessities.

Inequality is the extent in which income or wealth is distributed unevenly to a group of people (Horowitz). This difference has many implications that can affect the wellbeing of people. Inequality can impact health, mental and physical, social mobility, education, happiness,

and opportunity. Large inequality is problematic for states because it often causes political and economic instability (Horowitz). One way to measure inequality is the Gini index which measures the degree to which household or individual incomes or consumption expenditures deviate from perfectly equal distribution (Ultsch, 2017). A Gini index of 0 represents perfect equality, but an index of 100 implies perfect inequality. Gini indexes will be used to examine the overall perception of inequality in the United States in China, because there is a correlation between the middle class and inequality. However, the difference in the standard of living in the countries is extreme, so it will be considered when groups of people are labeled rich and poor.

This issue will primarily be examined with a historical and comparative lens to develop a comprehensive analytical framework. The United States and China are inherently different, so this paper will mainly look at the differences of the middle class in each country through the lens of the economic system, financial or state capitalism, respectively. Conclusions will be made based on the time the country has had to develop and the financial system used because both will be important when analyzing the middle class.

Analysis

United States' Institution of Financial Capitalism

In order to encourage innovation, in 1971, President Richard Nixon unpegged the dollar from gold, marking the beginning of the process of financialization (Bremmer, 2010). Because of this, there was a boom in the creation of credit and accumulating debt became normalized. Markets that had been rooted in gold no longer worked, so many countries had no other option than to liberalize their markets. The United States and many other developed countries worked to assist the rest of the world in financial liberalization, which then shifted industrial capitalism to financial capitalism, bringing financial capitalism to a global scale (Canderle, 202). Therefore, a

laissez-faire approach became the default policy option for governments worldwide, and as the economy has continued to grow and globalize, states have lost their sense of control on the economy. This has created detrimental effects for businesses and consumers, especially in developing countries because they are unable to rebound after economic disasters, evident in various economic crises since the separation of the dollar from gold, such as the 2008 Financial Crisis and the COVID-19 Pandemic (Bremmer, 2010). Though the United States economy prospered and grew immediately after its financialization, the economy has since stalled (Bremmer, 2010). As global financialization has occurred, the rich have experienced a growth in wealth accumulation and the middle class and the poor have been left behind because the rich choose to save and invest money, instead of spending it (Guoping, 2015). Therefore, the deregulation of the economy that happened as a result of financialization, has caused the middle class to grow poorer and smaller in the United States.

China's Adoption of State Capitalism

Rather than giving in to the neoliberal global order that was the facilitation of financialization, China's capital markets chose an alternative to financial capitalism, state capitalism. State capitalism is when the state has control of production and the use of capital and uses the markets for political gains, nearly the opposite of financial capitalism (Garnaut, 2018). This system is seen as efficient because of central control, but it lacks freedom for businesses and consumers to make economic decisions. The current state capitalism in China relies on intense government direction which coordinates and controls markets (Horowitz, 2020). Though markets are still important in the system, because the state can intervene in the economy, they play the largest role (Petry, 2021). Since the implementation of state capitalism, the Chinese government has been able to successfully manage policy goals (Horowitz, 2020).

An increase in state power was notable after the 2008 Financial Crisis, when China's political officials took the problem of a faltering economy into their own hands and out of the control of natural market forces (Garnaut, 2018). State spending kickstarted growth to offset the financial collapse. Because of the success seen in confronting the crisis in China, in order to achieve goals and protect their domestic political standing, the government has continued to micromanage their economy (Garnaut, 2018). Ian Bremmer argues that state capitalist systems are incompatible with the free-market system because the control the government has on the markets creates unfair competition between countries with differing systems (Garnaut, 2018). The financial crisis that was felt to a greater degree by countries with financial capitalist systems proved to China that state capitalism was the best way to ensure control and growth, growth needed to advance the country politically and economically.

The Middle Class in the United States

As mentioned before, financialization paved the way for the massive accumulation of wealth for the rich, and massive accumulation of debt for everyone else. It makes saving and investing difficult for those who are not wealthy, so the middle class is shrinking because fewer people can save and invest – more people are living paycheck to paycheck (Horowitz, 2020). In 1971, 61% of American adults lived in middle income households, but by 2015, this number had decreased to 50%, marking the first year in the United States since 1970 that people in the middle-income bracket were not a majority of people in the United States (Pew Research, 2020). Because the middle class is supposed to provide economic and political stability for a country, a smaller middle class and more income polarization can impact many sectors of life.

The middle class is becoming smaller for a plethora of reasons, but they are all rooted in the economic system of financialization. Marco Ranaldi, a professor in economics at University

College London, argues that the neoliberal tendencies of the United States economic system have caused the income of those at the top of the income bracket to grow (Ranaldi, 2022). Since the installation of financial capitalism, the rich have taken advantage of miniscule taxation from the government which has allowed savings and prevented money from being funneled back into the economy, in the hands of those who are less fortunate.

United States' Stagnating Wages

In addition, as the cost and standard of living have increased and wages have remained stagnant since the financialization of the economy, the problem has only been exacerbated (Ranaldi, 2022). American earners find expenses for housing, medical costs, debt payments, childcare, elder care, increasing faster than inflation, yet real wages, the dollars paid to employees after adjusting for inflation, for every American but the wealthy have remained the same for over forty years (Etebari, 2003). More than one-in-five middle-income households spend more than they earn (OECD, 2019). This phenomenon is often explained by automation or other cheap labor alternatives, but wage stagnation has been occurring longer than either of those two possibilities. Thus, economists cite “local monopsony power,” the idea that local employers can keep employee wages low because of a lack of competition, as a reason for wage stagnation since the 1970s. Researchers investigated this hypothesis by analyzing census data from 300,000 different manufacturing plants from 1977 to 2009, and they found that plants with nearby competitors paid higher wages to workers than plants with no local competition, proving a connection between labor-market concentration, monopsony power, and decreased wages (Petersen, 2020). Local monopsony power therefore explains wage stagnation for the middle class since the 1970s, but it does not explain the current trends causing the intensification of the shrinking of the middle class.

Automation in the United States

Though neoliberalist tendencies and wage stagnation have occurred for several decades, the United States middle class has only been shrinking at noticeable levels for the past few years. There has recently been a sharp rise in the inequality of wages (Autor, 2010). In the past two decades, demand for high skill workers and low skill workers has increased, while opportunities for middle skill blue-collar and white-collar jobs have decreased (Autor, 2010). To address the recent change, economists and sociologists argue that the middle class is shrinking due to the effects of automation and offshoring in United States industries (Autor, 2010). Because of this, middle skilled jobs, which researchers refer to as routine jobs that require little education, some training, and held by middle income earners, are being lost in the United States, subsequently shrinking the middle class (Nurski, 2022). These routine tasks whose workers are being replaced are described by economists David Autor, Frank Levy, and Richard Murnane as “job activities that are sufficiently well defined that they can be carried out successfully by either a computer executing a program or, alternatively, by a comparatively less-educated worker in a developing country who carries out the task with minimal discretion” (Autor, 2010).

Middle skilled jobs are susceptible to automation because engineers can generally create the hardware or software technology with ease since the jobs are commonly based in routine work (Ferro-Luzzi, 2022). From a financial perspective of automation, middle-skilled workers are paid high enough wages to justify building the necessary technology, whether it be a robot or artificial intelligence (Fanusie, 2021). Unfortunately, these are often the jobs obtained by members of the middle class, so with every unit of technology that can perform the desired tasks, the result of automation is one less middle class worker (Nurski, 2022). On the other hand, if technology for middle skilled jobs is too advance or too expensive, businesses can simply

relocate their endeavors to countries with less financial barriers so that production can occur at a smaller cost. Because alternatives to middle skilled workers are cheaper and a successful business works to maximize its profits, middle income workers are being displaced and the middle class is shrinking (OECD, 2019). In contrast, high paying analytical and creative work and low paying service and manual jobs possess difficult characteristics for technology to imitate or have unreasonable justifications for the high cost of potential technological infrastructure, so the opportunities for these jobs are flourishing (OECD, 2019). Because the supply of high paying and low paying jobs is increasing as the supply of middle paying jobs is decreasing, the United States is experiencing job polarization.

Reskilling Workers to Address Shrinking Middle Class

To address job polarization due to automation, the United States can look to reskill its workers who are likely going to lose their jobs to technology (Nurski, 2022). By 2030, as many as 375 million workers are projected to require a switch in occupational category because of automation and artificial intelligence, according to a McKinsey Global Institute Report (Illanes, 2019). So, to make substantial change and prevent a massive loss of jobs in the middle class, there will need to be a commitment of investment. The United States can follow the lead of European countries who have made a large investment into the future of work that has been effective at limiting unemployment and job loss (Nurski, 2022). France has created individual learning accounts where 5000 to 8000 Euro are given to those whose job is at risk for automation to be used for courses to reskill (Nurski, 2022). In Belgium, employers are required to spend a mandated percent of their revenue on training workers (Nurski, 2022). Though these efforts have challenges such as geographical mobility, they help create the opportunity for occupational and economic mobility. If the United States fails to effectively reskill its middle skilled workers, the

combination of stagnant wages, lack of local competition, automation, and job polarization will cause an economic disaster because the people will be too poor to afford goods and services, thus decreasing the economic and political power and stability the United States holds on the world stage.

The Middle Class in China

Since the institution of state capitalism in China, the economy has rapidly expanded, lifting more than 800 million people out of poverty (The World Bank, 2022). In 2000, the middle class in China made up a mere three percent of its population, but by 2018, over fifty percent of the population was considered middle class (Center, 2021). However, as numbers can often be misleading, it is imperative to recognize the standard of living in China is far lower than many OECD countries because they are in different stages of development. China has a Gross National Income (GNI) per capita of \$10,410, and though it has grown more than ten-fold in the last twenty years, it is significantly lower than the average GNI per capita of OECD countries, \$43,861 (Center, 2021). Compared to countries at similar stages of development instead of developed nations that make up the OECD, China's GNI per capita is on the high end, relatively.

Despite the differences in GNI per capita, middle class households in China typically still have enough income to cover primary needs such as food, clothing, and shelter, with extra disposable income for additional consumption and savings. The Chinese economy is booming because of the cycle of higher incomes leading to higher spending from middle class households (Center, 2021). In all sectors of the economy, data shows extreme increases in spending on products of various types. For example, the Chinese saw growth in passenger vehicle sales for twenty six years straight, and they the e-commerce market has grown to be the largest in the world (Center, 2021). "Consumption overall is robust, and you see what is driving that, it's new

consumers entering the middle class, and that is the primary driver of growth in the China market,” Daniel Zipser, a senior partner at McKinsey, explained (Cheng, 2019). As consumption spending is increasing, businesses are expected to expand more operations into China because of the economic opportunities, which will fuel the economic growth and potential for job opportunities even more.

China’s Urban Rural Class Divide

Though the middle class has grown as a whole in China as an increasing number of people are becoming better off, the prosperity is largely based on geographic location (Bremmer, 2018). People in both rural and urban areas are experiencing more wealth accumulation, but generally, those in urban areas are feeling the benefits to a higher degree (Wan, 2007). Most people live on the East coast, so there is an ample amount of job opportunities in large cities like Beijing, Shanghai, and Hong Kong, propelling people into the middle class. Because the inland is less populous, the government must make more of an effort to address poverty there. According to Dr. Fatton, in the last thirty years, the government has rechanneled economic development to the inland in efforts to alleviate poverty and grow the middle class through effective reforms (Fatton, 2022). Because of these reforms, the average income of households has risen, and the proportion of non-agricultural industries has risen from less than a third of the rural economy to over 84 percent, not (Chen, 2009). Therefore, the number of citizens who identify as rural and poor dropped by 12.89 million between 2016 and 2017 and consumer spending is rising (Batabyal, 2022). Though more work needs to be done to raise the standard of living for those residing in the inland, the government has worked to address poverty and pull people into the middle class in both rural and urban areas of the country.

Despite Progress, Inequality in China Persists

In less than fifty years, China progressed from an underdeveloped country to one of the world's largest economies. It used to have a level of inequality less than the European average and similar to Nordic countries which are the posterchild for equality, but inequality now reflects a level more similar to the United States (Piketty, 2021). The rich in China, similar to the United States, have become richer in recent years (Chakravartti, 2022). According to data from the World Bank, China has a Gini Index of 38.5, which is dramatically higher than its Gini Index of 27.0 in 1984 (The World Bank, 2022). In addition, based on research conducted at the London School of Economics and Political Science, the share of national income earned by the top 10 percent of the Chinese population has increased from 27 percent in 1978 to 41 percent in 2015, while the share earned by the bottom 50 percent has dropped from 27 percent to 15 percent (Piketty, 2021). Though more people are middle class citizens, the richest are amassing wealth which is contributing to higher inequality in the country. However, it is important to consider the positive effects of the elevation of the entire population to more sustainable levels of wealth as opposed to focusing only on the rich holding large percentages of the money (Chakravartti, 2022). The fact that the majority of the people can live much more comfortably now than they could four decades ago is a notable accomplishment for the Chinese government.

Furthermore, China lacks a social safety net that could work to limit the growing inequality in the country. According to Dr. Chakravartti, residents are moving from a lower middle class to more vulnerable incomes, so an effective social safety net would address and counteract this problem (Chakravartti, 2022). While there are a few that exist, the social programs that have been implemented have not produced large enough payoffs to address the need basic necessities (Bremmer, 2018). The redistribution programs in China are limited to a

noncomprehensive pension program and few welfare benefits, showing that the programs are mainly catered towards the elderly rather than the poor (Fatton, 2022). Instead of providing monetary assistance to the poor, the country relies on state given jobs to boost people out of poverty. China has yet to require a social safety net because the recent economic growth has been so successful, but because systems are not in place, when economic growth slows or stagnates, many people will be left without help which poses a massive risk (Fatton, 2022). In order to combat this potential disaster, China should establish social safety net programs in addition to state sponsored job programs.

Chinese Development Projects

Rather than relying on a social safety net for helping with social mobility, the growth of the middle class can largely be attributed to the creation of jobs from the massive economic development projects that have been conducted by the state (Chakravarti, 2022). Since the state manages the infrastructure and development projects that help lift people out of the middle class, projects are able to be carried out quickly and efficiently. China has both private and public development projects, but the parameters for private development, such as the number of workers and wages that the workers must be paid, are established by the government. Then, businesses must follow these guidelines (Chakravarti, 2022). Because of this control, the government is able to require the employment of as many workers as they want which will help decrease unemployment. Further, by establishing the certain wages the government employs an indirect way of putting money into the pockets of their citizens. If the government's goal is economic growth, wages might be increased to promote consumer spending which boosts GDP (Chakravarti, 2022). Therefore, the government has a grasp on the economy as a whole because of state sponsored jobs and government mandated wages.

For example, in China's most recent five year plan, there are 27 key projects in the areas of construction and regional development proving that infrastructure is important not only for elevating China on the national stage but also for providing jobs for residents (Grünberg, 2021). Infrastructure projects often relate to transportation, telecommunications, and logistics since these directly work to improve the quality of life in China (Tang, 2022). Currently, the projects range from the construction of underwater railway tunnels to the construction of canals to transport water from the south to the north of the country (Tang, 2022). These mega projects, while ambitious and costly for the government, stimulate local businesses and create jobs for people in China, so the government sees them as a way to bring people out of poverty. In the past, they have largely been successful, but some scholars worry the ambition of the state to tackle so many projects will create massive amounts of debt (Tang, 2022). Regardless, the infrastructure projects, both past and present, have been a large contributor to lifting more than 800 million people out of poverty.

Decline of the US Hegemony

As previously mentioned, the wealth of a country is largely correlated with the strength and size of the middle class because a larger middle class results in a higher GDP. In addition, the wealth of a country often determines the amount of power the country has in the world—the higher the GDP, the more influence and say a country has on the world stage. This is because countries with a larger middle class experience a higher level of economic and political stability. As the middle class dynamics in the United States in China change, there has been a global shift in the perceptions on power and the United States hegemony (Csurgai, 2022). The United States' role as the world's unipolar power is at stake, and it would not be the first superpower to experience a decline. The National Intelligence Council, for example, projected that in 2025, "the

U.S. will remain the preeminent power, but that American dominance will be much diminished” (Nye, 2010). In its place, experts believe, will be China because of a combination of the size of China’s economy, strength of their military, and their influence within the international system.

Though the development of both countries is slowing, China has closed the gap in the three areas that can be used as evidence to prove a decline in one state’s world power actually occurring. The United States invests the most money in their military, but China has the second highest military funding (Falk, 2022). The transformation of the Chinese military that has occurred recently including the increase of funding has the potential to threaten the security of the West (Hynes, 1998). Furthermore, with China’s growing influence in the international sphere by instigating development projects like the Belt and Road Initiative (BRI) and the United States weakening influence on the international scene as it limits support for the rest of the world, China is gaining international influence while the United States is losing it (Dollar, 2017). More people will be lifted out of poverty because of the BRI but this prosperity will come at the expense of being under Chinese control (Goodarzi, 2022).

Finally, as the size of the Chinese economy continues to approach the United States’, economic power of the countries is growing and stalling, which changes global power. All three of these factors combined show that the United States is losing power and China is gaining it. The United States is also losing its foothold on global power because the United States’ two party system is increasingly unstable, and due to the cultural hold the United States has on the rest of the world, everyone can easily see into the problems in America, discrediting its power (McTague, 2020). All of these factors have paved the way for a bipolar global power system.

However, the globalization has caused a global power shift that is accompanied by various geoeconomics risks (Jansen, 2019). Among the concerns of China’s rise to power is the

threat it has to democratic values and human rights around the world. China has always been more concerned with growth and wealth that the need for political stability has outweighed the importance of human rights (Hynes, 1998). This creates fears in the United States and throughout the rest of the West who have worked to impose democratic and peaceful values throughout the world. Also, the presence of China and their subsequent control in the South China Sea concerns experts of how China might use potential power (Hynes, 1998). China was only able to gain power it now holds in the sea after pursuing military conflicts, and if they choose to employ hard power again, the security of the world order would be threatened.

The change in global economic and political power, despite growth in military and international foreign affairs from China, would not have shifted global power perceptions if it were not for the growth of the middle class, the foundation of economic growth. China could not have money to pay for military or infrastructure development without a strong middle class, and they would not have had a respectable role on the international stage to promote their trade if their economy was weak (McTague, 2020). Because of the middle class, the Chinese economy is strong and continues to grow, so their power throughout the world continues to grow, too.

Future Outlooks of Experts

Because of variables in the United States and China that could change the global power structure as well as the middle class, inequality, and wealth of both nations, experts have differing opinions on their futures. Dr. Goodarzi believes there will likely be an increase in social insecurity, crime, and violence due to patchy economic growth that will leave groups behind as a result of a shrinking middle class. According to him, there might be a revolution as more people gravitate towards the populist movement, especially in the United States (Goodarzi, 2022). According to the OECD, nationalistic and anti-globalization attitudes might arise due to a

shrinking middle class because it produces disillusionment and damages political engagement or turns voters towards anti-establishment and protectionist policies (OECD, 2019). In agreement, Dr. Ferro-Luzzi believes the future of inequality to be grim. He argues that, because of the polarization in the United States, the middle class will continue to hollow especially as political ambition deteriorates (Ferro-Luzzi, 2022). Concerning the loss of jobs due to automation, Dr. Laura Nurski thinks the overall number of jobs will not be reduced, rather, the job type offered will be changed, but there will likely be a higher degree of frictional unemployment in the near future because people do not have skills that align with open job positions (Nurski, 2022).

In terms of the China, researchers throughout the world have examined the growth of China and believe there are two likely futures for the country. One opinion suggests that the government engineered success will collapse from no democracy, no human rights, no freedom of speech, and no rule of law (Wen, 2021). Dr. Lionel Fatton believes that China is going to have to face challenges as people stop blindly accepting the strict rule of the government in exchange for economic prosperity. As people become more educated, they will recognize issues within China and could potentially choose to act in protest (Fatton, 2022). If this course ensues, China will lose prosperity, global power, and inequality will increase. The other prospective view is that China's return to global power reflects history, in that China was one of the most advanced and rich nations (Wen, 2021). Because of the history, it is inevitable that China would once again rise to the top. If this is the future for China, Dr. Ranaldi argues that if China can successfully increase the number of people in their middle class and their incomes, global inequality will be reduced as a whole (Ranaldi, 2022). The path of China, largely determined by the education of the people and the prospective economic growth, both which will excel if the middle class continues to grow, will determine if it truly is to take the United States' control of global power.

Regardless, Dr. Chakravarti believes that there has been no other time in history where inequality has been this low and wealth has been this high, and though there is a large spectrum between the rich and the poor, it is good that most people live somewhere in the middle class (Chakravarti, 2022). As experts view the future differently, current events and problems will continue to shape the future trajectory of both the United States and China.

Conclusion

It is expected that the United States growth will continue to stagnate because much has already been attained, job polarization will significantly impact the economy and the future of work, and inequality will increase because jobs that require a middle level of skills will diminish due to automation. The United States should significantly increase their support for reskilling workers in order to combat these problems, by looking to Europe for examples of effective social programs in place to mitigate the effects of a shrinking middle class and growing inequality. If the United States is unable to alter the effects of job polarization or provide more benefits to those who will be hurt by the changing economic climate, it will lose economic power and political stability, and people, especially those who see no hope of success, will lose trust in institutions. The shrinking of the middle class is a grave problem because it can cause instability, and instability from the most powerful and stable nation would result in global demise.

On the other hand, China, whose middle class and GDP are growing at a remarkable rate, will continue to grow and amass economic power while remaining political stable for the time being. In the short term, inequality will continue to be reduced in the country as people come out of poverty and enter the middle class due to the creation of jobs by the government, the Chinese will continue to become smarter, and China will become even more of a global influence. If China continues to invest substantial amounts of money in both foreign and domestic

development projects, Chinese people will likely live comfortably with a great sense of stability and Chinese influence will be asserted around the globe. However, in the long term, certain people might decide they are not okay with the economic control the state has on residents because when people become richer, they are granted time to think and reflect. Therefore, China must work to ensure everlasting trust from the people so that they continue to value the economic security given by the government over economic freedom.

The juxtaposition between the United States and China's middle classes provide for an interesting study as power dynamics and the nations' roles in the global economy change. Development occurring on different timelines ensures that change will be made, but China is perhaps the first notable challenger to the United States hegemony. According to the OECD, "The investment of the middle class in education, health, and housing, their support for good quality public services, their intolerance of corruption, and their trust in others and in democratic institutions, are the very foundations of inclusive growth" (OECD, 2019). Though it may not appear extremely important, this paper shows that the middle class is the foundation for not only economic growth but also global power, so it is imperative that both countries work to keep a large middle class in order to retain or gain global influence and ensure economic expansion.

Abbreviation list

BRI: Belt and Road Initiative

GDP: Gross Domestic Product

GNI: Gross National Income

OECD: Organization for Economic Co-operation and Development

PEW: Pew Research Center

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