

Analysis and Comparison of the Role Mechanism of Chinese and American Economics in Social Development: Impact, Opportunities and Challenges

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Abstract

This review paper examines how economic mechanisms shape social development through individual behaviors—consumption, labor, and education—and how institutions, markets, and social structures mediate these effects. Comparing the United States and China, the paper operationalizes Angus Deaton's tripartite framework—micro-data, institutional analysis, and historical context—to assess its applicability beyond Western settings. The American model, driven by market-based incentives, generates high efficiency and innovation but also rising inequality, financial precarity, and declining social trust. The Chinese model, combining state coordination with market mechanisms, achieves rapid poverty reduction, infrastructure expansion, and broad educational access, yet faces regional disparities, local debt, and new stratification. Social cohesion functions as both a precondition and an outcome of development. An integrated model balancing prosperity with equity and sustainability is proposed, with specific institutional design principles outlined for each policy domain.

Keywords

social development, economic mechanism, institutional arrangement, China-US economic comparison

1. Introduction

Economic mechanisms influence social development by shaping how individuals consume, work, and invest in education. These mechanisms operate through incentives and constraints that guide rational or bounded rational choices; the aggregation of millions of such choices determines broader social trends [1]. However, individual choices do not automatically translate into social outcomes. Institutions—legal frameworks, financial systems, labor regulations, and welfare programs—mediate this translation, producing divergent results across national contexts [2, 3].

In the United States, consumer spending accounted for approximately 68.5% of GDP in 2022, illustrating how individual consumption decisions drive aggregate economic performance [4]. In China, household savings remained around 45% of disposable income in recent years, while mobile payment transactions exceeded 527 trillion yuan in 2022, signaling that digital adoption is reshaping social behavior from the grassroots level [5].

Between 2018 and 2023, China's household consumption contribution to GDP grew from 54.3% to approximately 58.7%, reflecting deliberate policy efforts to rebalance growth drivers.

Labor markets reveal analogous dynamics. In the US, the gig economy now encompasses about 36% of workers, and women earn 82 cents for every dollar earned by men [6]. Between 2020 and 2023, technology and healthcare industries experienced employment growth of 8.3% and 6.7% respectively, while manufacturing contracted by 2.1%. In China, over 290 million rural migrant workers have relocated to urban areas, reshaping the country's demographic landscape; the urbanization rate reached 65.2% in 2022 (National Bureau of Statistics of China, 2023). Educational investment also aggregates into macro-social patterns. American student debt reached \$1.77 trillion by 2023, with bachelor's degree holders earning a median of 84% more over their careers than high school graduates (Federal Reserve, 2023). Chinese families spend approximately 19% of income on education, compared to 12% in the US; higher education gross enrollment in China reached 59.6% in 2022, up from 15% in 2002 [5]. Educational investment also aggregates into macro-social patterns. American student debt reached \$1.77 trillion by 2023, with bachelor's degree holders earning a median of 84% more over their careers than high school graduates [7]. Chinese families spend approximately 19% of income on education, compared to 12% in the US; higher education gross enrollment in China reached 59.6% in 2022, up from 15% in 2002 [8].

To understand why similar individual behaviors produce divergent social outcomes, this paper adopts and operationalizes Angus Deaton's analytical framework [9], which integrates three dimensions: micro-level behavioral data, institutional mediation, and historical context. Specifically:

Micro-data dimension: The paper compares household consumption rates, savings rates, education expenditure shares, labor force participation patterns, and debt-to-income ratios across both countries.

Institutional dimension: The analysis examines property rights regimes, financial system structures, labor market regulations, social transfer programs, and coordination mechanisms (market vs. state planning).

Historical dimension: The paper contextualizes findings within key historical episodes—the 2008 financial crisis, China's poverty alleviation campaign (2013–2020), the COVID-19 pandemic, and subsequent policy responses.

The research significance of this study is threefold. Theoretically, it extends Deaton's [9] framework to a comparative US-China setting, testing its applicability and identifying its limitations beyond Western contexts. Empirically, it provides systematic cross-country evidence on how similar individual behaviors aggregate into divergent social outcomes depending on institutional mediation [10]. Practically, it offers policy-relevant insights for both developed and developing countries seeking to balance economic efficiency, social equity, and cohesion—a trade-off that neither system has fully resolved [11].

2. Theoretical Background: Institutions and Redistribution Mediate Economic Outcomes

Economic mechanisms do not directly translate individual choices into social outcomes. Institutions—legal systems, financial markets, labor rules, and welfare programs—mediate this process [2, 12]. This mediation operates through three primary channels: property and resource allocation rules, coordination mechanisms, and redistributive systems. These channels function differently in the United States and China.

2.1 Property Rights and Resource Allocation

In the US, institutions emphasize private property rights and limited government intervention. Property rights indices remained above 85 out of 100 between 2019 and 2023, signaling strong legal protections for private ownership. Private property drives investment decisions: real estate markets, valued at approximately \$43.4 trillion in 2022, shape neighborhood segregation, educational opportunity, and intergenerational wealth transmission [13]. Financial assets exceeded \$200 trillion in 2023, and the financial system mediates capital allocation through securities markets and banking networks. The Dodd-Frank Act (2010) represents an institutional attempt to mediate financial behavior toward greater stability, though its effectiveness remains debated.

China follows a different institutional logic. The Communist Party guides both state and market activities. Between 2019 and 2023, China established over 21 free trade zones and enacted the Civil Code in 2021,

codifying private property rights within a socialist legal framework. However, land remains owned by the state or collectives, not private individuals. The land use rights system generated approximately 8.4 trillion yuan in local government revenue in 2021, facilitating the urbanization of over 300 million rural residents since 2000. State-owned banks control about 70% of banking assets, channeling credit toward strategic sectors designated in national plans [14]. Infrastructure investment totaled over 17.3 trillion yuan in 2022. The Shanghai Stock Exchange's STAR Market, established in 2019, exemplifies institutional evolution that balances state guidance with market efficiency [15].

2.2 Coordination Mechanisms

Coordination mechanisms differ substantially. The US relies primarily on market coordination, with the Federal Reserve acting as a key macroeconomic coordinator. During the pandemic, the Fed's balance sheet expanded from \$4.2 trillion to over \$8.9 trillion, demonstrating the scale of state intervention even within a market-oriented system. The Securities and Exchange Commission processed over 6,800 enforcement actions between 2018 and 2022, indicating active regulatory oversight.

China employs five-year plans as central coordination instruments. The 14th Five-Year Plan (2021–2025) targets 55 million new urban jobs and R&D spending at 2.7% of GDP [5]. This planning mechanism produced measurable macroeconomic effects: China grew 2.3% in 2020 while the US contracted 3.4%; both economies later grew above 5% in 2021. The contrast illustrates how coordination mechanisms shape aggregate resilience to exogenous shocks [16].

2.3 Redistributive Systems

Redistribution patterns diverge markedly. US government transfers reduce the Gini coefficient by approximately 0.08 points—a modest effect compared to European welfare states [17]. The Earned Income Tax Credit distributed about \$64 billion to 25 million households in 2022 [7]. Social Security transfers approximately \$1.2 trillion annually to retirees and disabled persons, representing the largest federal expenditure program.

China's poverty alleviation campaign (2013–2020) spent about 1.6 trillion yuan and lifted 98.99 million rural residents out of poverty—a massive state-led redistribution effort [5]. By 2022, basic pensions covered 1.04 billion people, and basic medical insurance covered 1.36 billion [5]. Central government transfer payments to local governments exceeded 9 trillion yuan in 2022 [7]. However, urban disposable income (47,412 yuan) remained far above rural income (18,931 yuan), maintaining an urban-rural income ratio of approximately 2.5 to 1 [5].

2.4 The Bidirectional Relationship Between Development and Social Cohesion

The relationship between economic mechanisms and social cohesion is bidirectional [18, 19]. On one hand, pre-existing social cohesion enables effective collective action, as observed in China's rapid pandemic response and poverty alleviation mobilization. On the other hand, economic outcomes shape cohesion: visible public goods provision can build institutional trust, while financial crises and rising inequality erode it [20]. Thus, social cohesion functions as both a precondition and an outcome of development—a recursive relationship that complicates any unidirectional causal interpretation.

3. Empirical Comparison of Socio-economic Outcomes

Economic mechanisms change more than income. They reshape cultural values, political legitimacy, intergenerational mobility, and social cohesion. The US and China show different patterns.

3.1 Cultural and Political Values

This section examines how economic mechanisms shape human capital formation and intergenerational mobility through education and labor market institutions. The comparison reveals that both countries achieve high average educational attainment but produce divergent mobility patterns due to different financing and allocation mechanisms [21].

In the US, bachelor's degree holders earn 84% more over their careers than high school graduates—a high return to education that drives sustained demand for higher education [22]. However, this return is unequally accessible. Student debt reached \$1.77 trillion in 2023 [7]. Tuition at public four-year colleges rose 179% between 2000 and 2022, while median household income grew only 23% over the same period (Georgetown University Center on Education and the Workforce, 2022). Student debt-to-income ratios for bottom-quartile borrowers averaged 0.74 in 2022, compared to 0.31 for the top quartile [7]. Children from the bottom income quintile have only a 7.5% chance of reaching the top quintile [10]. The plausible pathway is: market-based tuition pricing → rising costs outpacing income growth → disproportionate debt burden on low-income families → reduced intergenerational mobility despite high average returns to education. STEM fields produced 520,000 bachelor's degrees annually by 2022, while humanities enrollments fell 30% from 2012 to 2022—market signals (expected earnings) directly shape student major choices.

In China, higher education enrollment jumped from 31.1 million to 41.8 million between 2010 and 2020 [8]. Approximately 40% of university graduates majored in STEM in 2022, compared to 18% in the US (Ministry of Education of China, 2022). The Gaokao system drives intense competition, with over 12 million students taking it annually. Private tutoring spending exceeded 500 billion yuan before 2021 regulations. Urban families spend about 19% of income on education, versus 12% in the US [8]. The interpretive mechanism differs: state-expanded access → large enrollment growth → but family-funded tutoring creates advantages for wealthier households → persistent inequality in elite university admission. Children from families in the top income decile are 8.2 times more likely to attend elite universities than those from bottom-decile families [23].

3.2 Labor Market Integration and Returns

How economic mechanisms directly lead to mobility outcomes in the US: US bachelor's degree holders earn 84% more over their careers than high school graduates—a high return to education that drives demand. But children from the bottom income quintile have only a 7.5% chance of reaching the top quintile. Why? The economic mechanism is credit-constrained access to quality education. Student debt reached \$1.77 trillion in 2023. Tuition at public four-year colleges rose 179% between 2000 and 2022, while median household income grew only 23%. Student debt-to-income ratios for bottom-quartile borrowers averaged 0.74 in 2022, compared to 0.31 for the top quartile. The causal chain is: market-based tuition pricing → rising costs outpacing income → debt burden on low-income families → reduced intergenerational mobility despite high average returns to education. STEM fields produced 520,000 bachelor's degrees annually by 2022, while humanities enrollments fell 30% from 2012 to 2022—market signals (expected earnings) directly shape major choice.

This section explore how economic mechanisms directly lead to mobility outcomes in China: In China, higher education enrollment jumped from 31.1 million to 41.8 million between 2010 and 2020. About 40% of university graduates majored in STEM in 2022, compared to 18% in the US. The Gaokao system drives intense competition, with over 12 million students taking it each year. Private tutoring spending exceeded 500 billion yuan before 2021 regulations. Urban families spend about 19% of income on education, versus 12% in the US. The causal mechanism is different: state-expanded access → large enrollment growth → but family-funded tutoring creates advantages for wealthier households → persistent inequality in elite university admission. Children from families in the top income decile are 8.2 times more likely to attend elite universities than those from bottom-decile families. Graduate unemployment reached 16.4% in 2022, much higher than the overall urban rate of 5.5% [5]. A second mechanism is rapid educational expansion without commensurate job creation → credential inflation → high graduate unemployment → mismatch between human capital investment and labor market returns.

3.3 Social Cohesion Serves as Both Cause and Consequence

US social trust fell from about 46% in 1972 to about 32% in 2022 [27]. The economic mechanisms include the following: (1) Financial precarity — household debt reached 101.3% of GDP by 2023 [7]. The gig economy covers about 36% of workers, fragmenting traditional employment bonds and reducing long-term workplace solidarity [6, 24]. (2) Crisis-driven trust erosion — the 2008 financial crisis showed how market instability erodes cohesion, with mass foreclosures, wealth destruction, and collective economic trauma persisting across communities for over a decade [16]. (3) Uneven public goods — the US spent 17.8% of GDP on healthcare in 2021 but left about 26 million people uninsured [28]. Medical debt remains a leading cause of personal

bankruptcy. The causal chain is: market-driven allocation of risks and services → unequal access and financial vulnerability → reduced trust in institutions and each other → declining social cohesion [7, 16, 25].

How economic mechanisms directly lead to cohesion outcomes in China: China's poverty alleviation campaign (2013–2020) spent about 1.6 trillion yuan and lifted 98.99 million rural people out of poverty—a massive state-led redistribution that directly built social cohesion by reducing extreme deprivation [5]. By 2022, basic pensions covered 1.04 billion people, and medical insurance covered 1.36 billion [5]. The causal mechanism is: state-coordinated redistribution → expanded access to basic services → reduced material precarity for the majority → improved social trust in the system. The Gini coefficient fell from 0.491 in 2008 to about 0.467 by 2022 [30]. However, countervailing mechanisms also operate: urban disposable income (47,412 yuan) remains far above rural income (18,931 yuan) [5]. The hukou system limits full integration for 290 million migrant workers, creating a segmented labor market where rural-urban migrants face restricted access to urban public goods [31]. Local government debt exceeded 35 trillion yuan in 2023. Thus, the same state-coordinated mechanism that builds cohesion through poverty reduction also creates new stratifications (regional, rural-urban) that may erode cohesion over time [5, 31, 32]. The "Common Prosperity" initiative launched in 2021 aims to address this, with pilot programs in Zhejiang Province testing tertiary income distribution [15].

Summary of mechanisms across all three sections: In the US, market-based allocation generates efficiency and individual choice but transmits risk directly to households, producing inequality, debt burdens, and fragmented trust. In China, state-guided coordination achieves rapid poverty reduction and broad service access but creates regional gaps and new forms of stratification. The mediating factor is institutional design: whether risks and resources are allocated through markets (US) or state coordination (China) determines how economic mechanisms translate into social outcomes.

4. Discussion & Synthesis: Toward an Integrated Model

This section examines how economic mechanisms shape social cohesion through distributional outcomes, public goods provision, and crisis responses. The analysis shows that both countries face cohesion challenges, though the mechanisms driving these challenges differ systematically [19, 26].

4.1 The United States: Market-Driven Fragmentation

US social trust fell from approximately 46% in 1972 to approximately 32% in 2022, representing a significant erosion of social capital [27]. Several economic mechanisms contribute to this decline.

First, financial precarity directly undermines trust. Household debt reached 101.3% of GDP by 2023 [7]. The gig economy, while offering flexibility, fragments traditional employment bonds and reduces long-term workplace solidarity [24]. Second, crisis-driven trust erosion compounds structural vulnerabilities. The 2008 financial crisis demonstrated how market instability erodes cohesion, with mass foreclosures, wealth destruction, and collective economic trauma persisting across communities for over a decade [16]. Third, uneven public goods provision exacerbates inequality. The US spent 17.8% of GDP on healthcare in 2021 but left approximately 26 million people uninsured; medical debt remains a leading cause of personal bankruptcy [28]. The interpretive pathway is market-driven allocation of risks and services → unequal access and financial vulnerability → reduced trust in institutions and each other → declining social cohesion [25].

However, the US system also demonstrates institutional strengths. It leads globally in entrepreneurial activity, patent generation, and top-tier university research output [29]. The flexibility of its labor markets and depth of its capital markets enable rapid innovation and resource reallocation. These strengths should be acknowledged alongside its cohesion challenges.

4.2 China: State-Coordinated Cohesion with Emerging Stratifications

China's poverty alleviation campaign (2013–2020) spent about 1.6 trillion yuan and lifted 98.99 million rural people out of poverty—a massive state-led redistribution that directly built social cohesion by reducing extreme deprivation [5]. By 2022, basic pensions covered 1.04 billion people, and medical insurance covered 1.36 billion [5]. The interpretive pathway is: state-coordinated redistribution → expanded access to basic

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5. Conclusion

This review compared how economic mechanisms shape social development in the US and China through individual behaviors, institutions, and social structures. Three findings stand out. First, individual choices in consumption, labor, and education aggregate into very different social trends depending on institutional context. Second, US institutions prioritize market efficiency and individual freedom, while Chinese institutions prioritize state coordination and collective welfare. Third, social cohesion is both a cause and a consequence of development—and neither system has fully reconciled growth with equity.

The main contribution is applying Deaton's micro-data, institutional, and historical framework to a comparative US-China setting. This reveals not which system is "better," but how each system's mechanisms produce predictable trade-offs between prosperity and cohesion [11]. Understanding these mechanisms provides crucial insights into how economic theory translates into lived social reality.

Future research should do three things. First, track how individual behaviors and institutional changes co-evolve over time using longitudinal panel data. Second, include other countries—Germany, Japan, India—to test how generalizable these findings are. Third, move beyond GDP to multidimensional well-being metrics that capture health, environment, social trust, and life satisfaction.

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Funding

This research received no external funding.

Conflicts of Interest

The authors declare no conflict of interest.

Acknowledgment

This paper is an output of the science project.

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