

Original Article

A Comparative Analysis of the Effects of Capitalism on Inequality in Communist, Post-Communist, and Long-Term Liberal Economies

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Abstract - The topic of study is political economy. Specifically, it relates political systems to economic inequality. Previous research had been done but from a much more specific angle for either of the countries explored (the USA and China). Though this previous research had some very unique perspectives and helped in building this paper, there is not a lot of definitive work in comparing these systems from a larger but simultaneously detailed scope, thus providing the rationale for new research. This paper is primarily composed of a thematic and critical meta-analysis of extensive secondary research that seeks to find specific examples that represent and can be linked to the broader questions being asked, namely, what the effect of capitalism on inequality in various economic contexts is. The major findings would be that under this scope of inequality, capitalism appears to be the root cause of economic inequality, while communism has its own distinct negative effects. The significance of this study lies in its definiteness and conclusiveness in providing an argument for the large and much-debated topic of capitalism against communism.

Keywords - Capitalism, China, Communism, Economic inequality, Social inequality, Socialism, USA.

1. Introduction

Communism and capitalism are two economic and socio-political systems. Capitalism was preceded by mercantilism, and it would be until after Adam Smith's seminal text, *The Wealth of Nations*, was published that capitalism would truly be established. The system has developed heavily since then, but Smith laid its foundations. Today it is a system where all the means of production are privately owned by groups of individuals and organisations and are run with the main objective of profit, while most other people are workers who work for a salary or wage (and do not own the capital or the product) (Zimbalist et al., 1989, pp. 6-7). Pure capitalism advocates for free markets and free trade with no government intervention as well. On the other hand, communism, which was first introduced by Karl Marx and Friedrich Engels in *The Communist Manifesto*, proposes that the state, so effectively the people, own the majority of resources and means of production in an economy and society, for example, land, houses, factories, education, agriculture, and transport (Ely, 1972, pp. 35-36).

Furthermore, production should be carried out in common, and the fruits of this labour should be redistributed equally to eradicate the class system (*Communism: Karl*

Marx to Joseph Stalin / CES at UNC, n.d.). There are evident contrasts between these two systems, which are on opposite sides of the economic and socio-political spectrum. Capitalism is generally associated with the right side, and the right side is thought to be representative of conservative values (Lukes, 2003, pp. 602-626).

On the other hand, communism and socialism are associated with the extreme of the left side; the left side represents liberal values (Gosse, 2005). Though few countries are pure communist or capitalist states, it is a relevant topic today because of its associations. The values associated with these systems shape the world greatly and often lead to socioeconomic failures, namely poverty and economic inequality.

Moreover, if the systems of communism or capitalism are the foundations of today's governing bodies, then when faced with problems in the socioeconomic space, it is these systems that will be looked to as having caused these faults to some degree. In addition, an economic system will not actively try to cause inequality or poverty because, theoretically, it means there are unused resources. From a developmental economics angle (a human angle, essentially),



it leads to a bad standard of life and living conditions. These are failures of the state, and any system that leads to them must have some fault in its inner workings. Capitalism and communism are designed to be opposites of each other, as can be seen in the definitions. In fact, it would ostensibly seem that the fundamentals of capitalism lead to a gap in wealth since there will be a richer, capitalist class owning the means of production and a poorer class working the means of production. Communism is meant to liberate the proletariat from the oppression of wealth (Engels & Marx, 1985). Yet, despite the differences in design, both systems can lead to undesirable outcomes; however, this paper wishes to see whether they both lead to inequality. Thus, this research paper intends to investigate the effects of capitalism on economic inequality and the factors that lead to them in various communist contexts as well as the constant variable of a liberal, market-leaning economy in the long term. This is to see whether capitalism is the root cause of inequality even in communist settings or whether there are flaws in the applications of communism that also lead to inequality. The examples of communist and post-communist China and the United States of America for capitalism have been taken to analyse and compare the respective systems in more depth. Neither the USA nor China are pure examples of their respective systems. They both have other policies to moderate their systems; the analysis of this adds greater depth to the understanding of both these systems since they only seem to be perfect in theory and not in practice.

2. Themes

2.1. Inequality in the US

Inequality in the US is explored in the context that the USA has always been a capitalist-leaning country operating with a market-based economy. Thus, this paper has tried to search for standout events in the course of the USA's modern history that truly highlight the threads that tie the USA's economic and political system to the research aim of inequality.

2.2. Inequality in China

On the other hand, the case of China has been explored given the context that it once was an extremely strict communist country but would transition to a capitalist economy while maintaining its socialist ideologies under Xi Jinping. China's perspective is particularly interesting as it allows us to contrast the levels of inequality under communism and capitalism and pinpoint which economic system leads to more negative consequences.

2.3. Common Patterns between these Two Different Political Economies

Some common pattern would be the fact that, at present, both countries are more capitalist-centric economies; however, the ruling regimes both stray away from the absolutism of market forces with the Democrat

administration under President Biden and perennial China's Communist Party. Because of this similarity (along with the respective differences in history) helps us understand the true causes of economic inequality and how they seem to have similar roots despite opposite beginnings.

3. Discussion

3.1. Reasons for Inequality in Both Countries

Before discussing the reasons for inequality in both countries, some similarities and dissimilarities should be laid out. Though the USA is an example of a capitalist state and China a communist state, both economies are mixed to some extent. The US has socialist elements, but it generally leans towards the capitalist side, with an economy largely controlled by individuals and organisations with occasional intervention by the government (National Museum of American History, n.d.). Conversely, China has capitalist elements, but it generally leans towards the communist side, with the government majorly controlling the economy.

The reasons for inequality in each country will be discussed later on. However, we may begin characterising the reasons for inequality in both countries here. In the US, beginning in the 1980s, 'technological change, globalisation, the decline of unions, and the eroding value of the minimum wage' have been catalysts for inequality (Horowitz et al., 2020). With emphasis on the final two causes, it is evident that the lack of economically socialist values in the US' economy has been a reason for the rising inequality rates. The other two causes stated may be attributed to capitalism, as technological change has economic incentives in trying to expand the economy's aggregate supply and potential production capacity so that output, real gross domestic product (GDP), and eventually profit may rise. Globalisation is the increasing interdependence of economies throughout the world via trade, allowing capitalist individuals and organisations to enter new markets and achieve higher efficiencies by virtue of the inherent comparative advantages between economies. This also allows for higher revenues and, hopefully, higher profits at the welfare cost for the rational producer. These patterns clearly portray capitalism as having more negative repercussions than its left-leaning counterparts.

In China, the root of growing inequality was planted in the middle-to-late 1970s and would grow from the 1980s to the modern day, like the US. Following Mao Zedong's death in 1976, the new leader of the CCP, Deng Xiaoping, launched several market reforms based on privatisation to stimulate China's economy. This was the harbinger for China's shift to market economy tactics and the general shift of pure Maoist, communist ideology to some capitalist ideologies too. This shift would lead to a trend of rising wealth-income ratio but also increasing inequality (Piketty & Zucman, 2014, pp. 1255-1310). A significant decline in

public property contrasted with a significant rise in private wealth. This pattern was seen in post-communist countries, for example, post-Soviet Russia (Piketty & Zucman, 2014, pp. 1255-1310). Once again, this basic characterisation that will be explored in more detail later on portrays capitalistic elements as being the cause for economic inequality rather than socialist and communist elements (this statement is based on the conclusion I come to by the end of this paper). Though still arguably a premature conclusion, this is an extremely interesting facet of the discussion suggesting that the economic and socio-political effects of capitalism and communism are not even. Rather there may be a preponderance of inequality-related effects on a certain side.

3.2. *Inequality in the USA*

In the fashion of the Genevan political philosopher Jean Jacques-Rousseau, we can assert something about the human condition, which is that people are born free and equal (Rousseau, 2008). However, capitalism and basic economics do not necessarily think along those lines. People are assets and resources. They are sources of revenue and the beginning of a profit. The three fundamental questions of microeconomics - what will be produced, how it will be produced, and who will receive the product - represents an inherent inequality in economic theory because the presence of these questions means that someone cannot receive the benefits of the goods and services being made. Only those who can afford a product will be involved in answering these three questions. There are advantages to capitalism. It is efficient and allows for freedom of choice, but such benefits do not apply to all. Deadweight losses and market failures in economic theory delineate this inequality. Though economies do not work in such a basic fashion, it does characterise and influence many such as the capitalist example of the USA (the USA has a high Gini coefficient of 41.1). The US uses government intervention and socialist policies such as 'Supplemental Security Income', the 'Supplemental Nutrition Assistance Program', and the 'Temporary Assistance for Needy Families (United States Census Bureau, 2022). Yet, capitalism still shines through in various instances, for example, in the medicine industry.

The pharmaceutical and hospital markets have exhibited extreme capitalist behaviours. The American struggle with extremely high hospital bills has been carrying on for some time now and is caused by administrative and technological expenses, corporate rapacity, and price gouging (Cutler, 2020). Drug price hikes such as the 'Daraprim' drug with its price increasing from \$13.50 to \$750 overnight, the heart drug 'Isuprel' going from \$440 to \$2,700, and the price of a single vial of the 'Acthar Gel' drug used to treat a rare form of childhood epilepsy being raised from \$40 to \$23,000 (Peralta, 2017). The lack of regulation through price controls over markets (regulation being a socialist policy), allowing them to be free until caught, leads to these devastating actions. Healthcare and pharmaceutical price-gouging is the

apotheosis of capitalist behaviour and is unique to the USA. Such price hikes display the inequalities present in the US but also carve out wider social inequalities. The medicine industry is a microcosm representing a capitalist USA's economic condition with a hint of socialism.

An event that further embodies the negative effects of capitalism and the lack of economic fail-safes and policies and was not just microcosmic but impacted the entirety of the US and the world, too, would be the Great Recession that spanned from 2007 to 2009. It is the lack of regulation that allowed banks to give out risky loans and package the expected returns from those loans into mortgage-backed bonds, which would be further packaged into more complex financial machinery. These extremely unethical actions attempts at garnering lucre no matter whose lives were being threatened, led to the housing market imploding when the consequence of giving out risky loans was realised. Eventually, the majority of the holders of these risky mortgages would default on their payments, and the bonds which were further packaged into more bonds would all fail (Singh, 2023). As a result, the US economy imploded, too, leading to severe consequences for the rest of the world. The crisis cost 20 million people their jobs (Express India, 2008). By 2009 the unemployment rate was 10% (Bureau of Labour Statistics, 2012). Real GDP had fallen by 4.3%, the largest decline in GDP hitherto in the post-war era (Rich, 2013). This Great Recession highlights the relationship between capital accumulation, financialization, and inevitable market economic crises (Plys, 2014, pp. 24-44). Though, the recession was not necessarily a part of the normal business cycle since it was not economically natural but rather unexpected and forced. Regardless, the recession once again revealed inequalities. The unemployed could only watch as those who betted against the housing markets made millions, and the government had to bail out bankrupt firms. Naturally, this created more inequality. The 'Occupy Wall Street' movement encapsulates this inequality perfectly: protestors marched in the financial district of New York, campaigning against economic injustice and the financial corruption in politics while Wall Street Bankers stood on their balconies, looking down and smiling derisively while sipping champagne (Kim, 2011).

The recession is one of the major events of the modern era and has had lasting economic impacts. Household incomes in the US have relatively recently begun to grow, but they are still not as high as pre-recession levels (Horowitz et al., 2020). However, income growth for upper-class households, especially the top 5% of families, has been the most rapid while the middle-income class is shrinking as the lower-middle income class grows with less wealth redistribution of the US' aggregate income reaching them (Horowitz et al., 2020). Thus, partly caused by the recession and partly caused by the causes mentioned in the first

discussion section, economic inequality in the capitalist USA is growing fast.

Thus, through the example of the USA and multiple examples within that, it can be posited that capitalism does have a relationship in causing inequality through a lack of socialist policies and regulations that allow for corporate greed to take over the market and create a disenfranchised lower socioeconomic and socio-political class.

3.3. *Inequality in China*

For a large period of the 20th century, China was a complete communist state. Under Mao's radical and bloody leadership, he initiated his own version of communism with the peasant farmers as the new proletariat. Regardless, the core aims of communism were still present as the Chinese Communist Party tried to eradicate inequality. The methods through which he did this that resulted in monotony, Kafkaesque bureaucracies, and cultural dogmatism may be criticised along with the ideology of communism itself, with its unyielding approach of serfdom under the government and state as the lord. However, high levels of equality were still achieved. Industrialisation occurred; however, the economy was still unstable (Butt & Sajid, 2018, pg. 169). When Mao died, Deng Xiaoping called into play market reforms that allowed private and foreign firms to produce in China and would eventually privatise domestic firms (Whyte, 2012). Deng enacted expansionary fiscal policies by setting up special economic zones (SEZs) along the coast with tax relief as foreign direct investment (FDIs) incentives. The incentive worked. This approach was fundamentally different to Mao's. Mao's belief that 'everyone eating from the same big pot' was overtaken by Deng's saying that 'it is good to allow some people to get rich first' so that others may strive to follow the same path. China's once strictly central government and economy began to be liberalised. SEZs such as Shenzhen developed rapidly, thus increasing the income levels in those regions, while interior regions of China had the same, relatively low incomes (Whyte, 2012). This led to widening inland-coastal inequality in income and living standards. Unlike the US, this has resulted in geographic inequality. China's policies are developed to favour urban areas and residents normally along the coast. Thus, compared to the US, there is an explicit and physical inequality in China, too, as the coast thrives, but the inland withers in stagnation and economic backwardness due to institutionalised biases (Xie & Zhou, 2014). This urban-rural social and economic cleavage is further exacerbated by the *hukou* system, a household registration system that categorises the population into urban and rural and places restrictions based on that (Jaramillo, 2022).

From the middle-to-late 1990s into the 2000s, China got rid of its state-owned enterprises to allow for a growing private industry to boost the economy (Whyte, 2012). This advent of corporatism and capitalism has led to spectacular

economic growth but also to socioeconomic inequality and urban poverty as the harsh laws of basic economic systems and markets shape China's cities, removing semblances of livelihood (Paun, 2010). Though China is still a single-party state ruled by the CCP, its communist roots are beginning to fade. China today embraces capitalist and free market practices; in 2020, it was the largest trading nation and the largest recipient of FDIs, surpassing even the USA (Ignatius, n.d.).

3.4. *Patterns*

Based on the exploration and analysis of the ways in which the government and economy lead to inequality in the USA and China, it is clear that capitalism is the primary cause of inequality (Coburn, 2000, pp. 135-146; Rehbein, 2015, pp. 149-157; Piketty, 2014). One of the central theses of 'Capital in the Twenty-First Century' by the famous labour economist Thomas Piketty is that inequality is not a mere accident but is rather a product of capitalism (Cooper, 2015). Naturally, there are many facets and reasons, but it can be argued that the USA and China have consanguinity in their economic inequality. In the US, it is the capitalist practices that govern markets and societies, with the government occasionally intervening when the issue is too large to ignore. Otherwise, corporate, unregulated greed works discreetly, widening the gap between the rich and the poor. With China, inequality can be argued to have begun when China started engaging with capitalist ideologies, free market tactics, and policies from the late 1970s onwards. This analysis has proven what could be called an initial hypothesis which is that capitalism and communism, inspite of being opposites of each other in design, lead to the same negative effect of inequality. Rather, communism is still more effective at keeping an egalitarian society, though it is done in an extremely unnatural and forced way that limits and restricts human nature.

A way that is forced and works against human behaviour; in fact, by the end of Mao's reign, China had become quite unequal (Whyte, 2012). Though this paper is focused on capitalism and inequality with communist elements, communism also had extremely negative effects. In communist China, roughly 30 million people died due to the Great Famine as a result of the Great Leap Forward initiative (Smil, 1999). The horrors of the Cultural Revolution and Tiananmen Square Massacre occurred because of communist, authoritarian ideology. Based on the World Bank's 1.90 poverty line, in 1981, 90% of China's population was under the poverty line. Only after the capitalist practices did China reduce its poverty rate massively (under 4% in 2016) (Ravallion, 2021). If the aim of this paper were centred around communism and its negative effects, capitalism would be in a more positive light. It is a matter of perspective and positioning.

Nonetheless, under the lens of this research, there are differences between communism and capitalism regarding inequality. However, one cannot assert a definite conclusion based on this research as there are other aspects that may be explored. For it is only because of capitalism that China has achieved such immense growth and become the second biggest economy in the world with a nominal GDP of \$17.7 trillion, and once again, it is because of capitalism that the USA is the world's biggest economy with a nominal GDP of \$23 trillion. Evidently, there is a trade-off with the economic systems: growth for inequality.

5. Conclusion

A small reflection on this paper would be a limitation which is that the two examples did not follow the same timeline. These two examples are individual and isolated cases in terms of chronology due to practical reasons in writing this paper (restricting oneself to follow the same chronology for both examples is limiting since key events that are out of the bounds of the timeline cannot be considered). Thus, though this paper may not have depicted trends in the real-world timeline very effectively, the decision allowed for a better analysis of the concepts of capitalism, communism, socialism, and economic inequality.

To conclude, this paper has shown that capitalism is a root cause for economic inequality in the modern age. On the other hand, communism is guilty of other negative repercussions; nonetheless, the initial speculation in the introduction as to whether these opposing political and economic systems lead to inequality would seem to have been disproven. The concrete conclusions of this paper are significant and relevant in today's age, where misunderstandings of political systems and political polarisation are increasing (Carothers & O'Donohue, 2019).

But, beyond the scope of this paper and the current era, capitalism, communism, and socialism have uncertain

futures. In the delicate fabric of global politics and an increasingly globalised economy, it seems like a balance is trying to be found between rightist and leftist economic ideologies and actions. The increase in globalisation evidently shows the rise of liberal and even neoliberal market practices as free trade becomes more and more common, while the rigidity of communist (and often authoritarian states) have been fading away. The term 'late-stage capitalism' suggests that the economic absurdities and tragedies of the modern age are the result of a form of capitalism that is reaching its end. It can be seen in the USA and, to a lesser extent, in China (Desmond, 2019). The pharmaceutical industry in the USA perfectly encapsulates this. However, growing inequality in the post-Recession era for the US and from the 1980s onwards for China, paired with the ill effects of late-stage capitalism, has led to increased societal action and awareness. This can be seen in the growing proclivity of younger and coming generations to speak up, express, and protest. It is evident in the US, and though China censors much of this, protests and movements have been increasing over the past decade. This increased social action may be the turning point for a fundamental change in today's capitalism and business and economic practices. Clandestine activity may be brought to the forefront with increased economics and heightened demand for transparency. At this advent, 'conscious capitalism' and 'inclusive capitalism', which are systems of capitalism aimed at welfare and good, are ostensibly rising (King, 2021). However, no matter how much speculation is done over the future of such large, overarching concepts, we may not truly realise its change, evolution, and effects until much later on, when the bigger picture can only be seen in retrospect.

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