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The Common Pursuit of Broad Based Prosperity

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The two largest countries in the world are currently perusing strategies with similar objectives but very different paths. President Biden ran on a campaign platform promising to "Build Back Better"; a broadbased and ambitious agenda covering infrastructure, housing, education, economic fairness and health care. Meanwhile, in China the recent focus has been on a policy referred to as "Common Prosperity", a vaguely defined strategy which is a continuation of a multi-year tightening of regulation for finance and housing together with aggressive industrial policy and new efforts in antitrust, climate, inequality and family values.

Biden's Build Back Better plan has three pillars: the American Rescue Plan, a COVID-19 relief package; the American Jobs Plan, a proposal to rebuild America's infrastructure and create jobs; and the American Families Plan, a plan to invest in areas related to childcare and education. The American Jobs Plan was the short-term focus, getting businesses and households through the pandemic, and this passed in March. Attention has now turned to the other initiatives, some of which are politically contentious.

The plan to rebuild infrastructure in the US is the least controversial and the need has come into sharper focus over recent years given the increasing number of extreme weather events. In August, 19 Republicans joined all 50 Democrats in the Senate to pass a bipartisan infrastructure package which includes $550 billion in new funding for transportation, broadband and utilities. While the size of the bill falls short of the initial proposal, the bipartisan nature of the agreement is important and will lead to significant new investments.

Furthermore, a recent budget resolution allows Democrats to approve a further $3.5 trillion spending plan without Republican votes, but a small number of centrist senators wield significant power given the slim majority in the Senate. The plan covers areas relating to the rebuilding of infrastructure that couldn't previously get passed on a bipartisan deal, such as clean energy, together with elements of the American Families Plan. The plan has also been referred to as "human infrastructure" and includes a host of expenditures aimed at supporting broad economic participation such as extending the expansion of the child tax credit, improving child care options, together with free community college education. Few expect that the full $3.5 trillion package is realistic, but it remains to be seen how much will get passed and which taxes will be raised to help fund it.

Understanding what is happening in the US is relatively straight forward compared to understanding the policy objectives in China and assessing the potential longer term implications. Even by China's standards, 2021 has seen an extraordinary amount of government intervention in the economy. The listing of Alibaba's financial services arm, Ant Group, was expected to be the largest in history last year, but shortly before it was due to be listed the IPO was suspended and a series of regulations were introduced clamping down on Ant's lending business. The new rules provided guidance on anti-competitive behaviours, including abuse of dominant market positions and using concentration and market power to restrict competition.

This marked the start of a renewed crackdown on large technology businesses, with gaming stocks under pressure as China announced a new policy limiting children's video game playing time to 3 hours a week. Next in the firing line were stocks of education companies as a leaked memo suggested that Beijing may require home-schooling companies to register for non-profit status.

Chinese policymakers have been cracking down on sectors whose business practices they believe harm China's social fabric. China has seen the problems in the US and wants to avoid becoming a financialised, service based economy with rising social tensions. Chinese leaders plan to use taxation and other income redistribution levers to "rationally adjust excessive incomes" and spread prosperity more broadly.

With stresses building in the property sector, China needs to stabilise the economy for structural reforms to be successful, whereas the US has successfully used monetary and fiscal policy to weather the pandemic shock. However, Beijing has far more policy levers available compared to Washington and recent charity donations by large tech firms in China contrast with a US system where passing tax reform and regulation is challenging. Foreign investors have been rattled with China's recent actions, whereas investors in the US investors have been reassured that the most investor unfriendly actions will be watered down in the negotiations.

The pace of financial decoupling between the US and China has quickened, but both countries are aiming to rebalance the share of economy toward labour while lowering the corporate profit share and checking the rise in corporate power. The institutional structures in both counties are fundamentally very different, so more profound change can happen quicker in China. If polices to broaden prosperity are successful, it will make for stronger and more resilient economies, but the short term risks in China are much greater than in the US.

Democratic senator Mark Warner recently described passing Biden's agenda as "the most complicated Rubik's cube you can imagine". Deciphering China's policy also feels like a Rubik's cube, but one where the colours change every month and investors have to price in this uncertainty.