Analysis on Changing Trends in China's & U.S.'s Economies and Potential Benefits for Post-COVID Recovery

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ABSTRACT
An unprecedented scale of lockdown has been generated in the world by the highly contagious virus, COVID-19. Consequently, the economies are highly impaired, since businesses are closed, firms stop the productions, and global trade is constrained. The pandemic is challenging the formerly existing economic systems. Due to this, the economic systems started to alter. This article selects the two most prominent economies, of China and of U.S., to illustrate the changing trends. Specifically, the author will present the existing economies in both countries: the socialist economy with China's characteristics and the neoliberalist economy in the U.S. Following introductory sections, the article will further explore the changing trends, namely, the change between "big government" and "small government" in both countries. As the author noticed, China has a gradual change, from a big government, to a small one, while the U.S. is converse. Finally, the author uncovered the potential benefits of economic recovery after COVID-19, including the use of different methods by governments of different economies to stimulate financial recovery.

Keywords: *Post-COVID recovery, China, U.S., Economic system.*

1. INTRODUCTION

COVID-19 was categorized as "pandemic" in 2020 by the World Health Organization. This has created a challenge for both the medical and the economic system. Great challenges almost always birth great changes, such as the Great Depression, the end of the Golden Age, and the 2008 Financial Crisis. More specifically, such great challenges reveal the need of modification in the economic systems. The main goal of this article is therefore to show how the economies are changing. To be more precise, it shows how the economic ideology is switching after the damage caused by the COVID-19 pandemic. The author chose the two most prominent conflicting economies these days, China's and U.S. Since these two countries differ from each other in political ideologies, consequently, they differ in economic system and its changing trend in post-COVID era. To be more specific, the conflict between "big government" and "small government" is experiencing a dynamic change between two countries and it is the primary focus of this article. By observing the changes in government's participation in the economy, government expenditure and economic policies, the author determines the different changing trends between "big government" and "small government". After illustrating such changing trends, the author elucidates how the changes may show benefit for post-COVID recovery.

2. THE EXISTING ECONOMIES

China's economic system, *The Socialist Economy with China's Characteristics,* is originating from 1978. Precisely, China's economy is the market economy that dominated by public ownership [1]. The development of this type of economy is categorized in 4 stages. The first stage lasted from 1978 to 1984. During this period, the planned economy, which is typical to socialist countries, was still the dominating form, but it was accompanied by market economy. The second stage, 1984-1988, was marked by the government announcing "a planned commodity economy".

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Later, from 1989 to 1992, the Chinese government advanced the end of socialist market economy. In the last stage, which is from 1992 to today, the government endeavored to modify the economy in order to reach "perfection".

Before the COVID-19 crisis, the United States had a "Neoliberalism Economy". This form of economy derives from 1970s. At that time, the main aspect of economic deterioration involved diminished growth rate, cumulative unemployment and inflation [2]. In response to the economic deterioration, neoliberalism economy aimed at the establishing new rules of capitalism function that will affect the center, the peripheral and also, the relationship between the two. Specifically, the change meant diminishing intervention of the states, new economic goal towards price stability and draining the resources of the periphery to the center [2].

3. BIG GOVERNMENT VS. SMALL GOVERNMENT

3.1 Definition of "Big Government" and "Small Government"

In order to elucidate changing trend on "big government" and "small government" in the economy, the author will first define the "big" and the "small". The big government typically refers to a large scale of government involvement in the economy. Specifically, a big government will intervene in the economy by affecting the competitiveness, private sectors and market vitality with high expenditure, high level of taxations and strict policies. Conversely, a small government is less involved in the economy and therefore has less government spending, taxes, and gentle policies.

3.2 Government Engagement in China's Economy

The original concept of socialist market economy in China emphasizes the dominant force of public ownership, underlying the large proportion of government intervention in the economy. Following the COVID-19 pandemic, the reduction of government role in the current economy is visible. Two phenomena can illustrate this changing trend: competitive intensity and private sectors' dominance. To begin with, the competitive intensity has increased since the start of the COVID-19 crisis. Because there are many government-owned companies, the competitiveness became less drastic in the economy. However, the outbreak of COVID-19 allows companies with greater flexibility to stand out regardless of its ownership [3]. Also, the technology continued to expand. The heightened popularity during the lockdown period stimulated the development of technology companies [3]. Since the social distancing requirement increased the need for online entertainment, such companies received a major increase in demand and developed quickly in the lockdown period. Another factor that can be attributed to the increasing competitiveness in China is that COVID-19 potentially eliminates weak companies [3].

Concluding the three reasons mentioned above, the COVID-19 catalyzed the competitiveness in China because it helped to reduce the weak companies and strengthen the already strong counterparts. Contrary to past situations, where the government supported the companies, the current market in China has been less supported by the government and the rivalrous ones are the result of market's self-regulations. In addition to the intensified competitiveness, private sectors also started burgeoning following the COVID-19 pandemic. One comparison between the response to SARS and COVID-19 can elucidate this distinction. In 2003, the government represented the majoritarian force in epidemic prevention and recovery efforts, while in 2020, this position was taken by the large private companies a [3]. In 2003, the state-owned enterprise accounted for 45% of the profits. Now the private enterprise accounts for almost 67% of China's economic growth, creating 90% of the new jobs [3]. This domination in the private sector will continue to persist. On March 30th, 2020, the State Council published a series of policies whose purpose was to strengthen the role of the market, which would eventually boost the economy.

The Chinese government is also reducing the tax rate. Since COVID-19 has imposed a heavy burden on business, the National Development and Reform Commission in China has announced that it will lower the tax rate, especially for the medium and small size companies [4]. Also, since 2019, the personal income tax has been reduced in order to guarantee a higher disposable income for the citizens [5]. All these reductions in taxes indicate that the Chinese government is becoming "smaller" in the economy, by offering people more freedom in managing their income.

Concisely, China's economy tends to move towards a "small government", in which there is less government intervention and more free practice in the market. This trend is shown by the rising competitiveness in the market due to less government constraints; more private companies, contrary to government-owned ones, stepping up in the market; and reduction in tax burdens.

3.3 Government Engagement in the U.S. Economy

Contrary to what it is happening in China, the U.S. economy is gradually abandoning the Neoliberalism concepts and moving towards a "big government". As mentioned before, the neoliberalism economy emphasizes little government participation in the economy. Without direct announcement, the Biden government is acting opposing to the idea of low government intervention [6]. This is displayed by Biden's stimulating policies after the COVID-19 pandemic, which has the purpose of boosting the economy.

From 2019 to 2020, under the COVID-19 pandemic, the U.S. government expenditure increased by 9.7%. For comparison, coping with the financial crisis, such expenditure increased by 5.5%. When it was wanted to enlarge the military under Reagan's presidency, it increased by 2.3%. Moreover, when Roosevelt issued the New Deal in order to overcome the great depression, the government spending has increased by 1.6% [6]. Mere increment on government spending cannot indicate whether or not the U.S. is switching to another form of economic system because such increase in the government expenditure in the market can be a transient response to the pandemic. However, the trend is likely to continue [6]. Following Trump's 900 billion dollars stimulation, Biden issued a 1.9-trillion-dollar stimulation plan, which has been approved by the congress. It is expected that such expenditure can reach 6 trillion next year [6]. Additionally, the current payment proportion in GDP has reached 42.6%, which is even higher than that during WWII period. Therefore, the phenomena illustrated above indicate that far from obeying the concept of neoliberalism economy, the United States is currently moving on from neoliberalism with continuing persistence of large scale of government participations and interventions in the economy.

Another phenomenon that illustrates U.S.'s "big government" movement is the increment in taxations. For tax policies, Biden proposes to elevate the top rate to 39.8% plus 3.8% surtax, which will ultimately reach a total of 43.4% [7]. Increasing the tax rate for the top wealthy families indicates that the U.S. government is currently taking a more active role in redistributing the income in the nation. This will further contribute to more government expenditure that will stimulate the U.S. economy after the COVID-19 pandemic. Therefore, the changing trends in tax policies also show a "big government" approach in the United States.

To conclude, moving in an opposite direction compared to China, the U.S. government is currently being more active in the economy, as indicated by an unprecedented increment in the government expenditure to stimulate the economy. The U.S. can be regarded as changing towards a "big government", since this phenomenon seems to be a long-term trend.

4. POTENTIAL BENEFITS FOR POST-COVID RECOVERY

The changes discussed above are ongoing trends for China's and U.S.'s economies. The future effects of such changes are unknown. Next the author will discuss how such changes may benefit an economy after the COVID-19 pandemic. The author concedes that such changes will bring both benefits and harms. This article focuses on how these changes are expected to improve the economy, rather than doing an analysis on cost benefit. Therefore, the following paragraphs discuss only the potential benefits of changing trends in China's and U.S.'s economies.

4.1 Potential Benefits of Changing Trends in China

A "small government", towards which China is moving, will instill more incentives for people to participate the economy. When state-owned enterprises were dominating the market, the development of private sectors was largely constrained, resulting in the deprivation of economic vitality. Specifically, a small government, without any intense restrictions on businesses and competitions, will encourage more citizens to engage in economic activities. Since COVID-19 imposed limits in productions during the lockdown, such encouragement could help restore the productions level. Moreover, the reduction in taxes further encourages people to engage in businesses to earn more and elevate their living standard, while contributing to economic prosperity. By involving people in the production of goods and services, a once stagnant economy will be boosted. The expansionary effect of a small government will help heating up the economy and will reduce time to return to a pre-COVID level.

There might be critics who will argue that a "small government" means less government expenditure for stimulations, or redistribution of the wealth in a country. However, a former study conducted by Tanzi and Schuknecht has shown that such reduction cannot have devastating effects on an economy: countries can achieve satisfying economic performances without government absorbing 40 to 50% of the GDP. Equal performances can be attained when public spending reaches 20% of the GDP [8]. Therefore, becoming a "small government" can inject more vitality into China's economy China by offering more incentives for businesses and citizens to participate, while not necessarily harming the economic performances by reducing government intervention.

4.2 Potential Benefits of Changing Trends in U.S.

Stimulating the economy can still be an effect for a "big government" that is gradually emerging in the U.S. This may shroud the difference between "big" and "small" governments, because regardless of the extent of the government's intervention, the expected effect is the same. However, it is reasonable to consider the initial government size in the economy before talking about the possible differences between "big" and "small". The former U.S. government can be regarded as insufficient for economic prosperity. In contrast, the former Chinese government might have been too big, which deprived its economic vitality. Although both changes towards big and small governments are seen as economic stimuli, the way they stimulate the economy is different. For the U.S., the lack of government intervention results in the economy's difficulty to recover from a recession, as the market force is insufficient for self-regulation. The COVID-19 has caused citizens to be unemployed and businesses to operate at a loss. Moreover, the market power may be insufficient for restorations. By injecting more government expenditure in the economy, the U.S. government can potentially create more jobs, allowing more people to fuel the financial prosperity by participating productions of goods and services.

One further critique may arise: even if more government spending is seen as a stimulus, elevated tax rate may implicitly discourage economic activities, since people's power of charging their income is reduced. However, taxations served as a more important factor for the "second stage development" [9]. In the second stage, the infrastructure has been largely completed. The urgent issue is to maintain the development achieved in the first stage [9]. As a big government with more taxations, such maintenance is feasible, since some of the current spending was borrowed from the past, engendering wealth to secure the development from the first stage [9]. Impairing the purchasing power of the citizens, higher level taxes served to maintain the products of first stage development, infrastructures, firms, etc., with the purpose of allowing such products to continue to contribute to the economic prosperity.

5. CONCLUSION

This article has presented the economic systems in China and U.S. for several decades. In China, the socialist economy and its characteristics emphasized the dominance of public ownership and government intervention in the economy, while in U.S., the neoliberalism economy accentuates little intervention and conformation to the "invisible hands" in the market. However, fueled by the COVID-19 pandemic, the two economic systems need moderations in order to overcome the difficulties imposed by COVID-19. China, formerly an economy with "big government" participation, now is gradually moving towards a smaller government. In contrast, under Biden administration, the U.S. government is slowly becoming big in the economy. The change between big and small is indicated by the government's engagement in the market and tax level in each economy. With more engagement and tax level, the government can be characterized as "big". In contrast, lower such level indicates a characteristic of "small". Both of these changes serve as stimulations to the economy that is severely impaired from the COVID-19 pandemic. However, the means to reach such stimulation is different. For China, where there has once been excessive government intervention, the economy needs more freedom for the citizens to participate in the economy. Switching to a smaller economy served as an incentive for financial activities by encourage competitions between firms and lower taxes for medium and small size enterprise, which ultimately facilitates the economic prosperity. For the U.S., neoliberalism economy resulted in insufficient financial regulations from the government, which meant insufficient power for the market to revive. A bigger government can instill more economic activities that will contribute to a post-COVID recovery in the U.S. Although the original form and the changing trends of China and U.S. economy are contrary in their initial ideology, the common goal, from the author's perspective, is to search for a more suitable economic system after the COVID-19 pandemic and maybe a different approach to an ideological harmony in the economies. The conflict between big and small government has existed for a long time and has formed different ideological groups among economists. Both China and U.S. are pioneers in discovering the balance in economy between the "big" and "small" government which may contribute to resetting the disputes in this ideological debate. Such ultimate and perfect balance in economic system and ideology may deserve more explorations for its existence in the future.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Yiwen Sun.

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