

The Difference Between Chinese and American Fiscal Policies

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Abstract. This article discusses the significant differences between Chinese and American fiscal policies in terms of government intervention, investment, taxation, and spending. China emphasizes a more centralized approach to planning with investments in infrastructure development and state-owned enterprises aimed at stimulating employment opportunities for its citizens. In contrast, America tends towards smaller government involvement combined with tax cuts to encourage private enterprise. Another key difference lies in how these nations handle debt levels during periods of economic stimulus packages that lead to enlarged budget deficits. Overall, effective macroeconomic management targeted at improving overall well-being requires appropriate measures by governments tailored towards promoting long-term prosperity within respective nations while responding quickly to any economic crisis which may arise.

Keywords: Macroeconomics, fiscal policies, comparison.

1. Introduction

The fiscal architecture of a nation assumes a paramount role in shaping its economic trajectory, encompassing multifaceted dimensions of expansion, stability, and equity. This scholarly pursuit embarks upon a meticulous comparative scrutiny of the fiscal policies implemented by two eminent global economies, namely China and the United States, spanning the temporal expanse from 2006 to 2021. This temporal purview assumes particular significance owing to its encapsulation of momentous global occurrences, including the 2008 financial crisis and the ongoing COVID-19 pandemic. The import of this thesis resides in its capacity to furnish a comprehensive panorama of how these two economic behemoths deftly maneuvered through these tumultuous epochs, elucidating the stratagems they employed to invigorate economic growth and uphold stability.

The profound influence of fiscal policy on economic outcomes underscores the exigency of this thesis. Fiscal policy, comprising government spending, taxation, and borrowing, serves as the guiding force steering the economy towards its macroeconomic objectives. It possesses the formidable capability to resuscitate or dampen economic activity, effectuate wealth redistribution, and mitigate the impact of economic shocks. Consequently, a comprehensive understanding of the intricacies inherent in these policies assumes paramount importance for accurate economic forecasting, informed policymaking, and effective investment strategies.

The research subject of this thesis revolves around the fiscal policies of China and the United States. The imperative for embarking on this research stems from the inherent disparities in the political and economic systems of these two nations, which consequently give rise to markedly distinct approaches to fiscal policy. Attaining a comprehensive understanding of these disparities and their consequential ramifications assumes critical significance for policymakers, economists, and scholars alike. It furnishes profound insights into the efficacy of diverse fiscal strategies and their profound impact on economic growth and income distribution.

In summary, this thesis offers a meticulous comparative analysis of the fiscal policies pursued by China and the United States during the period spanning from 2006 to 2021. It elucidates the underlying economic rationale driving these policies, evaluates their tangible impact. The implications of these research findings extend far and wide, encompassing the advancement of economic theory, informed policymaking, and the formulation of effective investment strategies.

2. Fiscal Policies from 2006 to 2021

2.1. Chinese Fiscal Policies from 2006 to 2021

Due to the global financial crisis caused by the subprime crisis, China decided to promote an active fiscal policy in 2008. In general, it included tax reduction, expansion of government deficit and increase of government spending. In December 2008, the Chinese government decided to reduce the tax burden on citizens in order to increase public spending. Government investment and subsidies to people with low income led to development and promotion of economy of the whole country. In 2009, VAT was changed from production to consumption. In 2011, personal income tax was largely decreased to promote the economy. From 2012 to 2014, the government continued to take active fiscal policy to influence the whole economic structure. From 2015 to 2019, some influential changes were made by the Chinese government. Firstly, the novel directives advocated a diminution in both individual and corporate income taxation, thereby substantially alleviating the fiscal encumbrance borne by commercial enterprises and denizens. This transformative tax modulation substantively underpinned the burgeoning of small and medium-scale technological ventures, thereby furnishing them with enhanced profitability prospects. Second, the government increased both deficit and spending, which far exceeded previous times, to maintain the expansionary fiscal policy. When the coronavirus started to spread in 2020, the government made positive changes to deal with the situation [1]. The expansionary fiscal policy was stronger and more active. Only in 2020, the government cut taxes by more than 2.5 trillion yuan, and the government deficit rate exceeded the previous 2.8% by reaching a new high, which was 3.6% [2].

Another important goal was to address income inequality by implementing progressive tax policies aimed at redistributing wealth from high-income earners to low-income families. The introduction of new taxes has also played an important role in balancing revenue sources across different sectors.

More recently, China's fiscal policy is committed to supporting innovative-driven development through various measures, promoting technological innovation, industrial upgrading, and economic growth [3]. It aims to enhance manufacturing capabilities using digital technologies such as Artificial Intelligence (AI), Cloud Computing, and the Internet of Things (IoT).

Collectively, these efforts reflect Chinese policymakers' pursuit of balanced economic growth that emphasizes both efficiency gains and distributive justice concerns over time horizons ranging from short-term stabilization challenges following shocks such as the Covid19 pandemic to long-term strategic goals of global technology leadership.

2.2. American Fiscal Policies from 2006 to 2021

From 2006 to 2021, US fiscal policy has undergone significant changes and adjustments in response to economic challenges and shifting priorities. A pivotal policy stratagem materialized in the aftermath of the worldwide financial debacle of 2008 was the instantiation of an economic revitalization schema. This encompassed a concatenation of initiatives, such as tax abatements targeting both individual taxpayers and commercial entities, augmented governmental disbursement earmarked for infrastructural ventures, and a bolstering of sagging industries via targeted assistance.

In subsequent years, efforts were made by the government to reduce budget deficits through austerity measures aimed at cutting spending while increasing revenue by raising taxes. However, these policies faced strong political opposition due to concerns over their potential impact on social programs such as healthcare or education [4].

More recently, US fiscal policy has focused heavily on addressing COVID-19 pandemic-related impacts with direct relief payments provided to affected households and businesses under lockdowns or other restrictions. The CARES Act passed in March 2020 allocated more than \$2 trillion emergency funds towards this goal.

Another key priority is tackling income inequality through targeted measures like progressive taxation aimed at redistributing wealth from high-income earners back into low-income families.

Additionally, initiatives like Affordable Care Act (ACA) aim to expand access opportunities for medical services regardless of income level or pre-existing conditions.

Overall these efforts reflect how policymakers strive towards achieving a balanced approach between promoting growth emphasizing efficiency gains alongside distributive justice considerations responding quickly during short-term stabilizing challenges posed after shocks such as Covid19 pandemic occur worldwide affecting global economy adversely while prioritizing long-term strategic goals ensuring prosperity across all sectors within a context where international cooperation becomes crucial given interdependence among countries globally interconnected economically facing common issues posing similar risks putting pressures challenging sound governance principles aiming prosperity sustainability betterment considering not only national but also transnational effects requiring coordinated actions involving stakeholders beyond borders whose interests should be weighed equally contributing positively toward sustainable development objectives that ultimately serve collective welfare interests irrespective of any particular country's individual interest taking advantage sharing benefits generated collectively reducing downside risks encountering together thereby improving resilience capacities leading inclusive, sustainable growth mechanisms benefiting all stakeholders involved.

3. Differences Between Chinese and American Fiscal Policies

Fiscal policy is the government's use of taxation and public expenditure to achieve macroeconomic goals such as economic growth, full employment, price stability, and balance of payments equilibrium. Both China and the United States are major global economies with different fiscal policies that reflect their socio-economic systems, political ideologies, national priorities, and international relations.

China's economy is predominantly socialist with a planned economy. The state-owned enterprises (SOEs) are powerhouse players in major industries such as energy, telecommunications, transportation, and finance, among others[5]. Its fiscal policy emphasizes social equity by redistributing income from the wealthy to the poor. Additionally, it promotes sustainable growth by investing in strategic sectors such as infrastructure development. To control inflation, China utilizes monetary measures such as interest rate adjustments and credit controls. It also implements revenue-neutral tax reforms aimed at enhancing business competitiveness domestically while simultaneously lowering taxes for firms operating internationally. The goal is to incentivize reinvestment of earnings back into China without incurring domestic penalties due to decreased comparative advantages. Another priority of China's fiscal policy is reducing external risks through currency exchange rate manipulation and reserve accumulation strategies. These strategies bolster China's foreign exchange reserves and offset shortfalls in trade surplus balances that may occur when imported goods cost more than exported goods. In summary, China's fiscal policy balances social equity with sustainable growth, reduces external risks, and fosters economic development.

On the other hand, The US has capitalist democracy characterized by free-market forces competition between private sector players who follow profit maximization motives rather than central planning guidelines. Fiscal policies here are geared towards maximizing individual freedoms economic liberties while ensuring protectionism against foreign interference either directly or indirectly. This includes progressive tax structures used promote wealth creation opportunities across all segments society regardless colour race gender orientation creed instead targeting those capable generating enough taxable revenues sufficient ensure everyone access basic needs education healthcare jobs retirement savings etcetera therefore making it easier for people escape poverty cycles once they enter workforce start earning decent wages salaried incomes.

One notable difference between Chinese and American fiscal policies lies in how much autonomy respective governments have over managed their budgets. In China since most large-scale industrial production operations are owned controlled by the state, government has greater control over economic activities through policies like industrial planning or subsidies. This is in sharp contrast to United States where business enterprises are predominantly privately-owned and market forces

largely determine how resources allocated across various sectors resulting less direct state intervention into macroeconomic affairs at a national level.

Another key difference between Chinese and American fiscal policies pertains to their approach towards domestic consumption versus international trade relations. In China, Government encourages savings while discouraging spending since historically saving culture establish itself among population as safety net for future uncertainties such as natural disasters unexpected illnesses etc. thereby ensuring stable growth sustainable development standard living not jeopardized time either locally abroad The US on the other hand promotes consumerism with more emphasis given promoting products goods services manufactured within its borders often associated with western brands lifestyles , which can lead large deficits if exports lag behind imports due high production costs relative competitors around world.

Furthermore, both countries have different tax systems that reflect their respective socio-economic systems. In China's case this involves mainly indirect taxes including value-added-tax(VAT), import/export duties levies on fuel usage carbon emissions aimed environmental protection purposes whereas America relies more heavily upon income taxation system targeting individual earnings businesses profits capital gains dividends interest earned investments made domestically overseas prior deductions exemptions credits calculated based reporting requirements set forth internal revenue service federal level authority[6].

Finally concerning differences of scale budget allocation priorities between both countries' fiscal plans affecting social welfare measures public health care education infrastructure investment programs special needs populations emergency relief disaster management responses innovation scientific research et cetera e.g., COVID-19 pandemic recovery stimulus packages implemented last year globally exemplify scope reach these policies may attain when properly designed executed according rational principles evidence-based decision-making processes under scrutiny stakeholders beneficiaries alike.

4. Economic Growth of the United States under the Influence of Fiscal Policies

Government spending, taxation, and borrowing have been utilized in the United States as fiscal policies to stimulate economic expansion, and this approach has a well-established history.

Across different sectors, the U.S has an established reputation for its copious investments in groundbreaking technological innovations that push forth productivity enhancements. Government spending amounts to about 20% of GDP by 2019, which is mainly channeled into fields of defense, education, healthcare and infrastructure development.

Taxation policy assumes a pivotal role in nurturing economic growth through the provision of inducements for both individual and corporate entities to intensify their exertions, augment their reserves, and direct their capital towards investment endeavors. In 2017, the Trump administration effectuated tax reductions as a strategic conduit to bolster business profitability, effecting a notable truncation of the corporate income tax from a precedent rate of 35 percent to 21 percent [7]. The Tax Cuts and Jobs Act (TCJA) was legislated into effect on December 22nd, 2017. Although detractors articulated misgivings concerning the specter of burgeoning income inequality, proponents held the conviction that these fiscal diminutions would galvanize demand and potentially expedite the birthing of employment opportunities. Ergo, the annus 2018 bore witness to a robust Gross Domestic Product (GDP) augmentation, quantified at 2.9 percent, a trajectory that not only eclipsed prior fiscal years but also emerged as the most elevated growth quotient observed since the inception of the annum 2005[8].

Credit can emerge as a viable recourse for governmental entities to underwrite their fiscal exigencies during periods of paucity in tax-generated revenue streams or when pivotal programs, including stimulatory interventions, are necessitated during the throes of economic retractions. Although fiscal measures founded upon deficit financing can indeed furnish a mitigative buffer against transient perturbations, it is incumbent to eschew a proclivity toward their invocation as a

permanent palliative, given the concomitant specter of burgeoning public indebtedness that might thereby encumber the future policy latitude of administrators. It is noteworthy to underscore that a subset of economic theorists espouses the doctrine that calibrated escalation in government indebtedness can confer salubrious dividends when marshaled judiciously, owing to the apprehension that contemporary outlays can potentially germinate augmented dividends in the yet-unfolded chronicles of temporal progression.

In the sweep of history, economic historians broadly concur that a substantive impetus underpinning America's enduring affluence across the epochs has been its unwavering fealty to laissez-faire market capitalism, notable for its meager regulatory strictures and its pliant labor market dynamics. The cultivation of unfettered production modalities has precipitated a palpable dynamism suffusing the economic landscape. Consequently, governmental interposition should be apprehended as an ancillary impulsion to private sector forays, rather than a proposition of supplantation. On one axis, governmental entities bear the onus of buttressing the bestowal of vital services, encompassing public goods and infrastructural establishments. In tandem, they are enjoined to cultivate an ecosystem fostering entrepreneurial pursuits, innovation, and the germination of employments, materialized through the institution of curtailed tax thresholds and regulatory frameworks attuned to propitious commerce.

Simultaneously, adjunct to these fiscal precepts, the Federal Reserve assumes an instrumental mantle in galvanizing economic expansion by orchestrating the money supply. In riposte to epochs of economic retrenchment akin to the Great Recession of 2007-2008, the Federal Reserve enacted a strategic diminution of interest rates to the proximity of nil and invoked a program of quantitative easing (QE), architected to invigorate the economic matrix by infusing liquidity into market enclaves. In 2020, the Fed has embarked on an unlimited QE policy due to the pandemic's impact [9].

Critics, however, proffer the contention that undue reliance on monetary stratagems may engender unintended corollaries, encompassing the specter of asset price inflation, moral peril ensuing from lax credit standards, and the amplification of financial instability. Ergo, the governmental apparatus is enjoined to preserve the sustainability of its debt trajectory, thereby conferring augmented leeway upon prospective policymakers to invoke fiscal stimuli when exigencies beckon, all the while maintaining the equilibrium of stable macroeconomic conditions across households, commercial enterprises, and investors.

5. Conclusion

Chinese and American fiscal policies differ significantly in their approach to government intervention, investment, taxation, and spending. While both countries aim to promote economic growth and stability through their respective fiscal policies, they often employ different tools or strategies to achieve them.

One of the most notable differences between Chinese and American fiscal policy is that China tends towards a more centralized approach emphasizing planning while America emphasizes individual freedom with free market principles. The Chinese government plays an active role in directing resources towards key sectors such as infrastructure development, state-owned enterprises (SOEs), high-technology industries etc., stimulating employment opportunities for its citizens thus promoting sustainable economic growth.

China's focus on central planning has led it to invest heavily in public works projects like roads, bridges highways thereby laying down essential infrastructure required so as provide better connectivity across cities facilitating trade activities within the country which ultimately benefits all stakeholders involved by boosting productivity & efficiency gains [10].

In contrast American policymakers tend toward smaller government involvement combined with tax cuts aimed at encouraging private enterprise. Tax reductions are commonly used by policymakers to stimulate consumer demand therefore enabling businesses of various size scale up operations creating new job opportunities thus providing additional capital investments into economy either from

domestic sources or foreign investors attracted due lower taxes rates making US competitive vis-a-vis other jurisdictions globally.

Another key difference between these two nations' approaches lies in how they handle debt levels especially during periods when stimulus packages may be necessary but lead to enlarged budget deficits. China generally maintains a relatively low national debt-to-GDP ratio than USA allowing increased flexibility during recession period avoiding credit downgrade risk faced by many western economies post global financial crisis; whereas United States opt for borrowing large sums of money increasing OMB deficit projections requiring continuously debating congressional approval in order subsidize federal expenditures needed keep operating efficiently.

Overall, since no one-size-fits-all strategy exists regarding what constitutes effective macroeconomic management targeted at improving overall well-being standards quality life among population groups Governments must adopt appropriate measures in their fiscal policies thus be able respond quickly to any economic crisis which may arise thereby promoting long-term prosperity stability within respective nations.

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