
Bipartisanship – an Albatross for Congress

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As we watch the US and China heading enthusiastically into a full-scale trade war, it is worth taking a step back from President Trump's daily squabbles via the Twittersphere with the rest of Planet Earth, and focusing on the policy areas where the Republicans and the Democrats do already agree.

Infrastructure is one of the obvious areas. Both parties agree that the USA needs to spend more on maintaining its existing roads, bridges, canals, tunnels, pipelines, etc., as well as building new ones. The American Society of Civil Engineers produces a four-yearly report card on the nation's infrastructure, covering roads, bridges, aviation, ports, schools, public transport, drinking water, waste water, and solid waste management. The 2017 report card graded most categories as D or D+, with an overall rating of D+, i.e. "Fail".

Democrat leaders recently met with the president, and announced a joint commitment to fixing America's infrastructure, but the Republicans in the Senate came out in opposition. The Donald has announced several plans to improve infrastructure, but none of them have come to anything, yet.

To start with, someone has to pay for all this infrastructure spending. Private-public partnerships have a poor track record. Debt funding is unlikely to get approval at a time when the Federal Government is about to record its first trillion-dollar deficit. That means the infrastructure spending will have to be funded out of taxes. But what taxes? Tax increases are inherently unpopular with the electorate, and the Republicans and Democrats have very different views on who should pay the extra taxes. No agreement is likely here.

On top of that, every politician naturally wants to take credit for any piece of new infrastructure which is built in his or her electorate. But The Donald's business career suggests that he is incapable of developing a building without putting his name on it. This is clearly going to be unacceptable to the Democratic Senators and Representatives in any state or city where Federally funded new infrastructure goes up. They want their share of the credit, so "Trump Bridge" or "Trump Highway" are non-starters (although one imagines the Democrats would of course insist that "Trump Sewage Treatment Plant" get rushed through).

So the areas where bipartisan agreement will result in action have to be (a) cheap, and (b) a credit to all involved. These requirements kill off the vast majority of tangible projects. But there are three big policy fields which don't need higher taxes and do allow everyone to claim some of the glory.

The first area of bipartisan policy is drug prices. The prices which US patients pay for the most common drugs are 80% higher than patients anywhere else in the world, and for new drugs they are often three to five times the foreign price. Not surprisingly, there is a steady cross-border trade which enables US patients to take advantage of lower Canadian prices.

For decades, the big pharmaceutical companies in the US have lobbied US politicians to ensure that drug prices are high and discounting is illegal. Medicare and Medicaid, the US government healthcare providers, are forbidden to bargain with suppliers over drug prices. The pharma companies have claimed that high prices are necessary in order to fund the long and costly research which leads to the discovery of life-saving new drugs.

Many Americans, however, have discovered that US healthcare is not only twice as expensive as the OECD average, but also that it produces worse outcomes for the average citizen. They have discovered that citizens of other countries pay only one-quarter to one-half of the prices that they pay. In addition, pharmaceutical research in the last two decades has not produced many wonder drugs, but there have been many notorious examples of drug companies raising prices just because they could. Legislation to lower drug prices would easily attract public support in most electorates.

The second area of bipartisan policy is emerging just as fast as elderly Senators and Representatives can get themselves briefed on all this new technological stuff (the files are “in” the computer!?) about social media and data sharing and hacking and platform technology and metadata and so forth. The repeated scandals which have battered Facebook, Amazon, and the other big tech companies have finally awakened much of Congress to the fact that there is widespread voter support for better supervision and tighter regulation of the companies who have more data on US citizens than the US government does. In addition, several cases against the big tech companies are wending their way through the US legal system.

The third area of bipartisan policy is the growing belief that the US has been too nice to China in the past, and that China is an unfair competitor in the global arena. According to this belief, the Chinese navy is building bases in the South China Sea, the Chinese state subsidises Chinese companies, Chinese companies steal US intellectual property, Chinese hackers attack US companies and government departments, and so on. Because most of the US electorate believes that China uses unfair competition, or has forced US jobs overseas, or has stolen US technology, it is instant gratification for a US politician of either stripe to denounce the perfidious Chinese and demand fair play. So we can expect bipartisan agreement on “reducing the trade deficit” and “getting tough on China”.

Unfortunately, bipartisan agreement on these three issues will have painful consequences for global share markets. The pharma companies are not a large part of US, European, or Japanese share markets, but the sins of the tech companies will affect the US share market, and the new hostility towards the Chinese has global implications.

The technology sector has been the main driver of US equity returns since the GFC, outpacing the rest of the market so fast that it has grown to make up one-quarter of the value of the S&P500 index. The largest companies in the sector are already facing legal challenges in the US and Europe. Recent additions, such as Uber and Lyft, have had disappointing IPOs. Further regulation will undoubtedly add to the sector’s problems, and will put downward pressure on the US share market.

A full-scale trade war between the US and China does not cause serious damage to the US economy, although some sectors will suffer. Tariffs on USD\$539 billion of goods imported from China and USD \$139 billion of goods exported to China are not big enough to harm an economy whose 2018 GDP was USD\$21 trillion. But the imposition of tariffs and export controls, not to mention outright bans on companies such as Huawei, will cause the Chinese economy to slow even further, which will cause collateral damage to those countries – such as Australia – which run a trade surplus with China. The collateral damage caused by the trade war will be more serious than the damage suffered by the antagonists. As the saying goes, “when elephants fight, the grass gets flattened.”

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